Anhui Tianda Oil Pipe Company Limited
安徽天大石油管材股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code : 839)

ANNUAL REPORT 2014

CONTENT

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors
YE Shi Qu (Chairman)
ZHANG Hu Ming (Deputy Chairman)
FU Jun

Non-executive Directors
LIU Peng
Bruno Saintes

Independent Non-executive Directors
ZHAO Bin
WANG Bo
WANG Jie

SUPERVISORS

HUANG Yao Qi
Didier Maurice Francis Hornet
YANG Quan Fu

COMPLIANCE OFFICER

ZHANG Hu Ming

COMPANY SECRETARY

SHUM Shing Kei

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 406B, 4/F Mirror Tower
61 Mody Road, Tsim Sha Tsui
Kowloon, Hong Kong

AUDIT COMMITTEE

ZHAO Bin (Chairman)
WANG Jie
LIU Peng

REMUNERATION COMMITTEE

WANG Jie (Chairman)
ZHAO Bin
LIU Peng

NOMINATION COMMITTEE

WANG Jie (Chairman)
ZHAO Bin
LIU Peng

REGISTERED OFFICE

Zhenxing Road
Tongcheng Town
Tianchang City, Anhui Province
The PRC

AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China Limited
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Huishang Bank

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen’s Road East
Wanchai, Hong Kong

RECEIVING AGENT

ICBC (Asia) Trustee Company Limited
33/F ICBC Tower
3 Garden Road, Central
Hong Kong

OFFICIAL WEBSITE

http://www.tiandapipe.com

INVESTOR RELATIONS OFFICE

Zhenxing Road
Tongcheng Town
Tianchang City, Anhui Province
The PRC
Hotline: (86 550 7518500)
(852 6381 0079)

FINANCIAL SUMMARY

	2014 **RMB'000**	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
Profit and loss items					
Revenue	**2,881,955**	3,309,690	3,960,548	4,530,391	3,181,719
Gross Profit	**246,431**	229,340	237,844	294,360	261,549
Net profit	**57,779**	49,285	35,086	63,832	101,280
Balance sheet items					
Total non-current assets	**1,187,332**	1,319,288	1,424,623	1,475,746	1,485,682
Total current assets	**1,752,141**	1,867,102	1,264,216	1,492,332	1,696,369
Total assets	**2,939,473**	3,186,390	2,688,839	2,968,078	3,182,051
Total non-current liabilities	**–**	260	–	875	518,875
Total current liabilities	**713,555**	856,771	377,019	659,743	1,041,169
Total liabilities	**713,555**	857,031	377,019	660,618	1,560,044

CHAIRMAN'S STATEMENT

To all Shareholders,

On behalf of the board of Directors (the "**Board**") of Anhui Tianda Oil Pipe Company Limited (the "**Group**"), I am pleased to present the report and audited financial statements for the financial year ended 31 December 2014 ("**2014**" or "**the Year**" or the "**Reporting Period**" or "**the Year under Review**") for the review of the shareholders of the Group.

ANNUAL RESULTS

2014 was a year when the global economic recovery had obstacles, the major economic systems differentiated, the downward pressure on the China's domestic economy was increasing as well as multiple difficulties and challenges. Encountering such complicated situation and fierce competition in the industry, the Group stuck to the basic management principle in relation to cost management and risk control and was committed to development of new products, exploration of new markets, and optimization of product mix and customer base structure. Basically, the Group fulfilled the budgets prepared at beginning of year and lays a solid foundation for future growth.

The revenue of the Group for the year ended 31 December 2014 amounted to about RMB2,881,955,000 (2013: approximately RMB3,309,690,000), representing a year-on-year decrease of 12.92%; Net profit attributable to equity holders was approximately RMB57,779,000 (2013: approximately RMB49,285,000), increase about 17.23% on a year-on-year basis.

Despite the decrease in the Group's revenue for the Year compared to last year, the average gross profit margin of the products was increased stably and the Group's profitability was increased as a result of the Group's development of new products, and the adjustment to optimize the products mix and customers mix structure. Meanwhile, the Group strengthened the cost control and financial risk management which led to improving the overall operating efficiency.

REVIEW OF OPERATIONS

During the Year under Review, the Group enhanced risk management, controlled the production progress and paid attention to development of quality control. The Group achieved a total production volume of approximately 694,390 tonnes (2013: approximately 732,140 tonnes) and a total sale volume of approximately 679,790 tonnes (2013: 739,610 tonnes), representing an decrease of approximately 5.2% and 8.1% as compared to the corresponding period last year, respectively. During the Year under Review, the Group concentrated on technological on oil well pipe production lines, and completed technological upgrades on tube billet machine and ultra-sound testing equipment, etc. Technological upgrades improves the quality of the Company's products.

During the Year under Review, in the domestic market, the Group continued to consolidate the relationships with the China's four major oil companies as well as the strategic partnerships with large-scaled boiler, shipbuilding factories, and passed the accreditation of certain companies including Hangzhou Boiler Co., Limited and Xinfeng Oil Services Company (a subsidiary in China set up by Singaporean Falcon Energy Group which is a leader in regional offshore marine and oil & gas sector). In addition, the Group actively participated in the tendering activities organized by oil companies and the Group was accredited as Grade A Supplier of Refining Tubes, Alloy-Steel, Boiler Tubes and Seamless Tubes for Fluid for China National Petroleum Corporation ("CNPC") and the qualified suppliers of OCTG for CNPC and CNOOC.

During the year under review, in the overseas market, the Group continued to explore and consolidate the emerging markets in Africa, South America, Southeast Asia, and the Middle East. The Group focused on the accreditation recognised by international oil companies and passed the market entry qualification of oil-field enterprises led by certain international oil company as a foundation for tendering of more significant overseas projects and orders.

During the year under review, the Group continued to maintain one-stop service for customers, to consolidate customer base, to keep abreast of the market condition, and, as appropriate, to self-manufacture products of certain specification in one-stop service which are currently sourced externally.

As regards the research & development ("R&D") of products, the Group, based on the market-oriented and demand-oriented of customers, constantly develops new products and explore new markets. During the year under review, the Group continued to carry out detailed studies for the environment and exploitation technology for marine oil, and to carry out research and development of marine pipes such as marine pipes for drilling platform use and marine line pipes, and received orders for marine line pipes with FBE coating. Meanwhile, making use of the sophisticated R&D technique and experience of OCTG, the Group successfully developed a series of new products such as durable pipes (09CuPCrNi, Q355GNH, etc.), P9 heat-resistant acidic-use petrochemical pipes, and completed the certification of a provincial technology project.

RISK CONTROL

The Group placed emphasis on strengthening internal governance in order to more effectively control the Group's operating and financial risks. Since listing, the Group adhered to business model linking production and sales, continued to intensify the assessment efforts over auxiliary materials, work-in-progress and finished goods. As regards accounts receivable, overseas sales were settled by way of sight letter of credit while domestic sales were in principle by delivery of shipments upon full settlement of amounts. The credit period is only granted to large strategic customers depending on the circumstances, but normally not larger than 180 days. The Group's inventories amount and significant amounts of accounts receivable were audited regularly by senior management. The Group enhanced the supervision and control of key areas and uplifted the Group's risk control level through the implementation of the ERP system.

ENERGY SAVING, ENVIRONMENTAL CONSERVATION AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

In 2014, the Group based on the HSE management handbook and the requirements of its procedural document and adopted and reinforced its concept of sustainable development, focusing on safety production, strengthening the safety awareness of the overall staff, and making continual efforts on safety production responsibility and safety management system. It also further implemented safety accountability system, and strengthened the assessment of security responsibilities. The Group established security prevention mechanisms to regulate the production behaviour so that the production processes meet the relevant safety laws, regulations and standards requirements and with continuous improvement. The Company's safety management work has been recognized by governmental departments, and successfully passed the national assessment of the production safely and standardization and the annual review of production quality, safety and occupational health systems.

The Group is aware of the environmental influence over its sustainable development and the global environment, and it understands that the Group should have responsibilities on the environmental protection. Therefore, the Group devotes to taking various measures to minimize the environmental pollutions and to make the corporate and social sustainable development viable. The Group makes continual effort on strengthening the technological innovation of equipment, as well as energy saving plans to reduce energy consumption per unit of product constantly, and to ensure safety of product design and manufacture. Meanwhile, the Group co-operates with its suppliers to enhance the social and environmental benefits. The suppliers have to comply with the Group's requirements in relation to environment, occupational health and safety, etc, and work together to minimize the impact of the design, manufacture and operation on the society or environment to a possibly greatest extent. Our subsidiary in Chuzhou made use of natural gas as an energy source, thereby creating a clean environment without emission of pollutants. With increasingly stringent environmental requirements and policies, the domestic outdated production capacity will be eliminated through competition, thus fostering the Group a favourable environment for competition.

CHAIRMAN'S STATEMENT (CONTINUED)

The Group is constantly integrating corporate social responsibility practices into its development process so that during the process of business development, the Group would also continuously improve staff working environment, improve work compensation and engage in charitable work, hence maximizing their social contribution.

OUTLOOK AND PROSPECT

Currently, it is the global consensus to stimulate the growth, to create employment and to have structural adjustments when the world economy is still in the process of recovery but without adequate momentum, with severe geographical political impact and with increasing uncertainties. The downward pressure on the Chinese economy is growing and contradictions appears, and hence this year is more challenging than last year. However, China's development is still at the critical period where the applicable strategies are implemented for opportunities and significant potentials, challenges or leeway exists.

As the backbone of the oil pipe industry in China, the Group's products are widely used in exploiting of petroleum, natural gas (including unconventional natural gas, such as coal-bed gas and shale gas) and pipe transportation. China has the greatest potential in exploiting shale gas for the world. "Development Plan for Shale Gas" of the shale gas industry of China was implemented smoothly, strengthening the development of oil well pipe industry of China. The oil well pipe industry is now at its critical period where it faces with opportunities. With brand, reputation and product quality, the Group gain market recognition and has solid management for steady development. Under the adequate competitions and after adverse conditions in the sector, it enables to realise the healthy and sustainable development.

Through overseas listing and strategic partnership with VALLOUREC, a multi-national company, with great reputation in the global sector, the Group is gaining rising reputation and image in the sector, gaining increasing brand influence. Possessing the management experience and technical skills in the sector for over 20 years, the Group is capable of promptly responding to market demand and providing total service solutions. In 2015, the Group will continue to focus on developing product quality and adjusting the products and customer base structure, so as to optimize the development strategies for enhancing management efficiency and profitability. We will realize the sustainable development of the Group by upgrading products, internationalizing markets, improving environmental protection of production and digitalizing management process.

Looking ahead, we will work with strategic partners to know each other, leap towards long-term growth with unswerving confidence. We will contribute to the development of pipe industry of China and greatest benefits for its shareholders, customers, employees and society.

ACKNOWLEDGEMENT

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express heartfelt gratitude to all customers, business partners and shareholders for their confidence and support for the Group. In addition, I would also like to take this opportunity to thank the management team and staff for their tireless efforts and contributions in the past year.

Ye Shi Qu
Chairman

Anhui, the PRC, 23 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis relating to the Group's financial and operating conditions should be read in conjunction with the Group's consolidated financial statements and related notes for reference.

BUSINESS REVIEW

In 2014, in response to unfavourable situation including the volatile external economic environment, the industry's over-capacity, the prevailing trade protectionism; and to be adaptive to the Chinese new economic development, the Group was committed to technological transformation of oil well pipes' production lines, improvement of production efficiency, optimization of product mix and customer base structure and control of operational risks and production costs; and the Group maintained business co-operation with world-class enterprises, consolidated the foundation for development, and strengthened the abilities for development upon seizure of the opportunities.

The Group's products are mainly oil well pipes, as well as pipes of various classes and specifications for oil and gas transmission, boilers, vessels, automobile axles which are applicable to industries like energy, chemical, mechanical manufacturing etc. During the year under review, the Group's realized total production volume was about 694,390 tonnes, representing a decrease of approximately 5.2% as compared to the corresponding period last year. The decrease was mainly due to the Group's strengthening adjustment of the product mix structure and marketing structure in order to improve its profitability and to eliminate against market risks.

The Group put emphasis on the market promotion and exploration. During 24–27 September 2014, the Group participated in"TUBE CHINA 2014" – The 6th China International Pipes Exhibition (Shanghai) organized by Metallurgical Council of China Council for the Promotion of International Trade. In such Exhibition, the Group had face to face communication with the participating merchants to promote the Company's new products and the Group gained unanimous praise from customers.

During the year under review, in the domestic market, the Group continued to consolidate the strategic co-operative relationships with the China's four major oil companies as well as large-scaled boiler, shipbuilding factories; and to participate actively the tendering activities organized by oil companies and successfully obtained orders. Meanwhile, during the year under review, the Group was accredited as Grade A Supplier of Refining Tubes, Alloy-Steel, Boiler Tubes and Seamless Tubes for Fluid by China National Petroleum Corporation ("CNPC"), and it passed the accreditation of Hangzhou Boiler Co., Limited. However, influenced by the anti-corruption measures and the graduate decrease in oil price, certain oil field projects are postponed which results in decrease in supply of oil well pipes. The realized sales volume in domestic market in aggregate for the year was 461,286 tonnes, representing 67.9% (2013: 74.5%) of the Group's total sales volume.

During the year under review, in the overseas market, the Group has overcome the adverse factors including anti-dumping policies implemented by certain countries and regions, and continued to develop and consolidate the emerging markets of Africa, South America, Southeast Asia, and the Middle East. With the assistance of Vallourec, the Group had successfully passed the market-entry qualification of international well-known oil companies led by certain international oil company and parts of those customers placed orders to the Group immediately after their accreditations were granted to the Group. With the customers' recognition and accreditation obtained, it symbols the Group's product quality being recognized and progressed to higher level. During the year, the Group realized sales volume of 218,504 tonnes in overseas market, representing 32.1% (2013: 25.5%) of the Group's total sales volume.

On 7 November 2014, the Group entered into the New Sales Agreement with Vallourec Oil & Gas France, Vallourec Oil & Gas (China) Co., Ltd, Vallourec Middle East FZE and Vallourec Asia Pacific Corp Pte Ltd, the subsidiaries of Vallourec, which was effective for 3 years upon the independent shareholders' approval in the special general meeting held on 23 January 2015. The Group continues to consolidate the strategic co-operative relationship with Vallourec. The Group's export sales of oil well pipes expand, the production flows are optimized and the quality of products are improved with the assistance of Vallourec. In 2014, the Group had been granted the market-entry qualification by certain international well-known oil company.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group closely monitors changes in customer demand, and constantly develops new products to meet market demand. During the year under review, the Group continued to carry out detailed studies for the environment and technology for the exploitation of shale gas, and continued to carry out research and development of high-steel, anti-corrosive oil well pipes products applicable to exploration of shale gas or other non-conventional natural gas and applicable in various adverse geological environment. Meanwhile, making use of the sophistical R&D technique and experience of oil well pipes, the Group developed new products such as durable pipes (09CuPCrNi, Q355GNH, etc.), P9 high-efficient heat-resistant heat conversion pipes, P91 ultra high voltage power station boiler pipes and 10# & 20# acidic petrochemical pipes, TDCZ series axle pipes, E355 hydraulic cylinder pipes, and completed the re-certification review of American Petroleum Institute, and enriched product variety of API5L medium marine pipes. During the year under review, the Group organized and submitted a provincial science and technology research project, and was granted the second graded award of Chuzhou City Science and Technology Progress Awards (滁州市科技進步獎二等獎), and submitted application of an invention patent for《一種高光潔度鋼管的生產技術》and of two new applicable patents for《油套管接箍塗漆裝置》and《硼砂噴吹裝置》.

During the year under review, the Group initiated the construction project of the provincial technology centre. The technology centre mainly serves as the role of testing and research and development for products production and for providing trainings to technical staff. The design, planning and construction of main building was completed at this moment and the Group had entered into agreements for INSTRO material testing machines, oscillation & pulse testing machines, ZEISS microscope, HIC and SSC testing equipment.

FINANCIAL REVIEW

Comprehensive income

The Group recorded a total revenue of approximately RMB2,881,955,000 in 2014, representing a decrease of approximately RMB427,735,000 or approximately 12.9% when compared to approximately RMB3,309,690,000 in 2013. The decrease in revenue was mainly attributable to the factors including the market supply in excess of demand, the fierce market competition and the decrease in average selling price per tonne of product from approximately RMB4,475 in 2013 to approximately RMB4,239 in 2014, representing a decrease of approximately 5.3%, as a result of decrease in average pricing of raw material steel, as well as the decrease in sales volumes from 739,620 tonnes in 2013 to 679,790 tonnes in 2014, representing a decrease of approximately 8.1%.

Gross profit

During the year, the Group reported a gross profit of approximately RMB246,431,000, representing an increase of approximately RMB17,091,000 or approximately 7.5% when compared to approximately RMB229,340,000 in 2013. Though the fierce competition in the industry caused the decrease in sales volume of the products and selling prices; and the selling price of natural gas was increased, the Group's gross profit was increased. The increase in gross profit was mainly due to the fact that (1) the Company reduced the production costs continuously in all areas by carrying out detailed studies and innovation; (2) the Company continued to adjust the product mix and client base structure actively; and (3) the Company made the market research and analysis to look for the best opportunity for purchases, thereby reducing raw material costs to the greatest extent. The above effective measures caused the reduction in unit production costs to a greater extent than the decline in selling price of products and hence the profitability of the products was improved. The Group's gross profit margin was approximately 8.6% for the year, representing an improvement of 1.7 percentage point compared to 6.9% recorded in 2013.

Other income and gains

For the year ended 31 December 2014, the Group's other income and gains amounted to approximately RMB36,086,000, representing an increase of approximately RMB9,676,000 or 36.6% as compared to RMB26,410,000 for 2013. The increase in other income and gains was mainly attributable to the increase in investment income from bank short-term financial products and gain from forward foreign exchange contracts on export receipts.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and distribution expenses

For the year ended 31 December 2014, the selling and distribution expenses of the Group was about RMB140,171,000, representing an increase of approximately RMB1,380,000 or approximately 1% when compared to approximately RMB138,791,000 in 2013. The increase was mainly due to the increase in selling and distribution costs (particularly ocean freight costs) as a results of increase in the Group's export sales volume.

Administrative expenses

For the year ended 31 December 2014, the Group's administrative expenses was approximately RMB39,251,000, representing an increase of approximately RMB1,875,000 or approximately 5.0% when compared to approximately RMB37,376,000 in 2013. The increase was mainly due to the increase in provision made by the Group for inventories and in relation to management and control risks under the environment where the market price going down persistently.

Finance costs

The finance costs of the Group for the year ended 31 December 2014 amounted to approximately RMB6,853,000 (2013: approximately RMB12,077,000), representing a decrease of approximately RMB5,224,000 or approximately 43.3% when compared with 2013. The decrease was mainly due to improvement in fund utilization rate after the Group strengthened cost control and reduction in the foreign exchange losses as a result of exchange rate fluctuation.

Net profit

The Group's net profit attributable to owners of the parent company for the year was approximately RMB57,779,000 (2013: approximately RMB49,285,000). When compared with 2013, net profit attributable to equity holders increased by approximately RMB8,494,000 or approximately 17.2%. The increase was mainly due to the fact that the average profitability of products was increased as a result of the research and development of new products and the optimizing adjustment of product mix and client bases structure; and the Group strengthens the cost control and financial risk management which improve the efficiency in utilization of fund and the overall operating efficiency.

Inventories

The Group's inventories as at 31 December 2014 were approximately RMB547,714,000 (31 December 2013: approximately RMB568,945,000), representing an decrease of approximately RMB21,231,000 or 3.7% as compared with 2013. The decrease in inventories was mainly due to the fact that the Group continued to strengthen cost and risk control and the decrease in cost of raw materials.

Net assets

The Group's net assets as at 31 December 2014 were approximately RMB2,225,918,000 (31 December 2013: approximately RMB2,329,359,000). The net assets per share as at 31 December 2014 were approximately RMB2.21 (31 December 2013: approximately RMB2.31).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the Group's cash and cash equivalents amounted to approximately RMB474,910,000 (31 December 2013: approximately RMB481,103,000). As at 31 December 2014, the Group's interest-bearing loans and borrowings included bank loans of US$29,605,000 and Euro 667,600, equivalent to approximately RMB186,205,000 (31 December 2013: approximately US$24,124,000 equivalent to approximately RMB147,213,000). Bank loans of the Group bore interest at rates ranging from 1.2% to 3.7% per annum in 2014 (2013: ranging from 2.2% to 6.4% per annum). As at 31 December 2014, the Group had pledged trade receivables of approximately RMB186,205,000 to secure the bank loans. Generally, the Group's bank loans in 2004 are mainly low-cost short-term trade finance loans denominated in US$.

The Group's focus on sound financial management and, in the period when the industry competition was fierce and the demand was weak, reduced the bank loans and borrowing as much as possible, reduced the financial costs, implemented timely management over forward foreign exchange contracts against US$ denominated receipts and applied excess fund in short-term bank financial products. Meanwhile, the Group continued to improve the usage efficiency of cash and has always been committed to building long-term relationship of mutual trust with major banks. This has provided sound support to the long-term financial position of the Group. As at 31 December 2014, the Group's debt to asset ratio was approximately 6.3% (31 December 2013: approximately 4.6%), which was interest-bearing loans and borrowings divided by total assets and presented in terms of percentage.

CHARGES ON ASSETS

Save as those pledged time deposits of RMB31,671,000, notes receivable of RMB76,807,000 and trade receivables of RMB186,205,000 for issuing bank accepted drafts, letter of credit, forward foreign exchange contracts and bank loans, as at 31 December 2014, none of the Group's property, plant and equipment and other bank deposits were pledged for securing banking facilities.

SIGNIFICANT INVESTMENTS

On 22 March 2013, the Group's Board of Directors approved the resolution in respect of acquisition of new inspection and testing facilities with US$3,000,000 by September 2014. The acquisition for certain projects in such investment was completed in 2014 and it commences production in January 2015.

On 22 March 2014, the Group's Board of Directors approved (1) the investment in construction of a provincial technology centre of RMB7,800,000; (2) investment in technological reform of production equipment of RMB11,000,000; (3) adjustment of investment in Chuzhou staff dormitory project from RMB50,000,000 which was approved by the Board in 2011 to RMB12,000,000. Such project is still in the surveying process.

Save as above, the Group did not have other significant investments during the year under review.

MAJOR ACQUISITION AND DISPOSAL

The Group did not make any major acquisition or disposal during the year ended 31 December 2014.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities.

FUTURE PROSPECT

In 2015, China enters into a new economic development era. Facing complex economic situation, the Chinese government will remain keeping momentum for development, paying attention to the implementation of the measures for steady growth and focusing on adjustments and reforms, with attempt to providing favorable conditions for the sustainable and healthy development of China's economy in the future.

Following the gradual release of production capacity in specialized pipe industry in the competitive environment after the global financial crisis, it is obvious that the growth in production capacity slowed down, the merger and reorganization of enterprises enhanced industry concentration and the exit of certain enterprises from the market due to shortage of fund and inefficient management, which is also beneficial to improving the adverse environment and competition among enterprises. On the other hand, the China's economic growth, development of urbanization will boost demand for specialized pipe, especially the demand growth of energy in China give rise to the legislation and active involvement of the government in shale gas and other unconventional gas development, which provides valuable development opportunities for OCTG industry serving equipment and support services.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In 2015, the Group will seize the opportunity to continue the Company's established operating principles to meet the market demand. The Group will carry out the ongoing technological transformation of production and testing equipment, explore the potential of PQF machineries, transform ASSEL machineries for production of oil pipes, high-pressure boiler pipes, threaded pipes etc., so that it improves the production efficiency, enhances the products quality and yield rate. The relevant testing machine will be put in use.

In 2015, the Group will focus on the research and development, launch a series of new products, and strive to achieve the proportion of sales revenue of new products to total sales revenue as 10%. As regards oil casing, the Group will continue to develop anti-H2S corrosion threaded pipes, high-strength marine engineering pipes and marine line pipes, and develop new products like thick-walled mechanical pipes, high-strength mechanical structural pipes (S77QL, S890QL). Meanwhile, the Group will continue to complete the construction of the technology centre which is expected to use in May and will be applied for recognition as the provincial technology centre and it will carry out the preliminary preparation work for nuclear energy accreditation.

In 2015, the Group will continue to actively explore and maintain the domestic and oversea markets, to broaden the products' application, to consolidate and strengthen the strategic partnership relationship with oil companies, and to increase the supply of OCTGs, boiler pipes, vessel pipes and alloy steel pipes. In addition, the Group will obtain the market entry accreditation of more international reputable oil companies, boilers and vessel manufacturing enterprises and focus on exploring markets in Southeast Asia and South America.

With the strategic cooperation with VALLOUREC, the Group, making use of its overseas sales network resources, not only emphasize to explore overseas oil well pipe market, but also study the exploration of line pipes market, in order to ensure continued growth in sales of overseas markets, to consolidate and strengthen the Group's brand influence. With assistance of Vallourec, the Group improve the production skills and the product quality continuously. In addition, the Group is actively studying the high end equipment for exploitation of natural gas, coal bed methane mining to meet the special needs of customers towards the Group's products in the domestic and abroad markets. Meanwhile, the Group is actively studying the new models and ideas for future operational development with Vallourec which enables the Group to develop in a stable and healthy manner.

FOREIGN EXCHANGE RISK

Generally, when the Group sells its products to overseas customers, it is dealing in United States dollars. The Group's books are prepared in RMB whereas the receivables from overseas customers may be subject to foreign currency fluctuations.

During the year under review, the Group applied forward currency contracts to hedge against exchange risk resulting from overseas sales transactions. Forward currency contracts should be denominated in the same currency with the transactions to be hedged. It is the Group's policy to enter into forward currency contracts after attaining confirmed orders from customers.

All cash and cash equivalents of the Group are denominated in RMB, Hong Kong dollar, Euro and United States dollar and bank deposits are placed with banks in the PRC and, to a smaller extent, with Chinese banks in Hong Kong to fund the Group's expenses in Hong Kong. Remittance of funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PRODUCT INFORMATION

1. **Self-produced specialized pipes**

   For the year ended 31 December 2014, the sales volume of the Group's self-produced specialized pipes was approximately 675,010 tonnes (2013: approximately 732,140 tonnes), representing a year-on-year decrease of approximately 7.8% when compared to 2013.

2. **Sourcing and distribution of specialized pipes**

   Apart from the self production of specialized seamless pipes to cater for the demand from the Group's customers, the Group has also been providing one-stop services to its customers by assisting its customers to source and distribute other specialized seamless pipes of different specifications and kinds not yet manufactured by the Group, so as to speed up the customers' sourcing pace and reduce their costs of sourcing, thereby providing the customers with all-round services, and enabling the Group to timely capture market conditions and trends in customer needs.

   For the year ended 31 December 2014, the sales volume of the Group's sourcing and distribution of specialized pipes was approximately 4,780 tonnes (2013: approximately 7,480 tonnes). When compared to 2013, the sales volume of the sourcing and distribution of specialized pipes declined by approximately 36.1%.

   By reacting to customer needs and keeping abreast of the Group's actual business needs, the Group timely converted some products from external procurement to self production. Although there was a decline in the sales volume of the sourcing and distribution of specialized pipes during the period under review, the Group's business strategy for the sourcing and distribution of specialized pipes remained unchanged.

HUMAN RESOURCES

The Board believes that the quality of its employees is one of the most important factors for its development and growth and the enhancement of its profitability. As at 31 December 2014, the Company had 1,762 employees (as at 31 December 2013: 1,804 employees). The decrease in number of employees was one of the Group's measure for strengthening cost control. Lower head-count with higher efficiency was resulted from increase in the employee's work efficiency, overall ability and enterprise recognition.

In 2014, the Group made adjustments on the remuneration package for the Group's employees. Pay-rise was more favourable for the outstanding employees. The salaries for outstanding employees was increased by 15.4% for the year whereas that for management staff was increased by 4.6%. The Group's remuneration package includes salaries, incentives (such as bonus based on work performance) and allowances. The Group also provides social security and benefits to its employees. Adequate provisions have been made in the accounts based on the provisions of the PRC government.

The Group is committed to maintaining good corporate culture. We are people-oriented, and focus on enhancing team cohesion and motivating staff morale incentives through establishment of a remuneration mechanism with both external competitiveness and internal equity.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

It is our longstanding belief that a high standard of corporate governance is the key to the Group's stable and effective operation and is in the interests of the Group and its shareholders in long term. Throughout the year ended 31 December 2014, the Group has complied with the relevant regulations in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviation from the code provision A.1.8 of the Code. The Board and the senior management of the Group have earnestly appraised the requirements of the Code and reviewed the practices of the Group to ensure full compliance with the Code.

BOARD OF DIRECTORS

Board Composition

The Board of the Group for the year comprises of:

Executive Directors:
Mr. YE Shi Qu (Chairman)
Mr. ZHANG Hu Ming (Deputy Chairman and General Manager)
Ms. FU Jun

Non-executive Directors:
Mr. LIU Peng
Mr. Bruno Saintes

Independent Non-executive Directors:
Mr. WU Chang Qi (resigned on 31 March 2014)
Mr. ZHAO Bin
Mr. WANG Bo
Mr. WANG Jie (appointed at the annual general meeting held on 23 May 2014)

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2014, the Group has appointed three independent non-executive directors, at least one of whom has appropriate professional accounting qualifications. The Independent Non-executive Directors of the Group are persons of high calibre; with academic and professional qualifications in the fields of accounting, law and business management. With their experience gained from senior positions held in other companies/organisations, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. The Independent Non-executive Directors do not participate in the day-to-day management of the Company, do not have any financial, business, family or other material relationships with other directors and do not involve themselves in business transactions or relationships with the Company, in order not to compromise their objectivity. All of the Independent Non-executive Directors who served in 2014 have given confirmations of their independence to the Company under Rule 3.13 of the Listing Rules, and the Group considers these Directors to be independent. Each of the Independent Non-executive Directors has been appointed for a term of 3 years. The Independent Non-executive Directors who are subject to retirement by rotation will be re-elected and appointed by separate resolutions in the Company's annual general meeting. In respect of an Independent Non-executive Director who has served more than nine years, the Company expresses its view in the circular for the Annual General Meeting as regards such Director's independence. In accordance with the Code, the Company has to include its own recommendation in the circular to explain why a particular candidate should be re-elected. As the relevant credentials of the director to be re-elected have been included in the circular for the shareholders' information, the Company opines that it is more important for the shareholders themselves to make their own independent decision on whether to approve a particular re-election or not.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment and controls over business operations. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned with the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

Board Proceedings

The schedule of Board meetings for a year is planned in the preceding year, in order that directors can attend the meetings. All Board meetings' notices are given to all Directors in accordance with the requirements in the articles of association in advance and they can include matters for discussion in the agenda if the need arises. The Secretary to the Board or the Company Secretary assists the Board in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying Board papers are sent to all Directors at least 3 days before the date of Board meeting so that the Directors have the time to review the documents.

The Board meetings are usually chaired by the Chairman, Mr. Ye Shi Qu, who has the responsibility of ensuring that each of the agenda items is adequately reviewed and thoroughly deliberated within a reasonable time.

Minutes of each Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the subsequent Board meeting. The Directors may request for clarification or raise comments before the minutes are signed and kept by the Company Secretary as a record of the meeting.

Every director of the Group is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary or Secretary of the Board to enable them to discharge their duties effectively, and has the liberty to seek external professional advice if so required. The cost of procuring these professional services will be borne by the Group. The directors also have direct access to the senior management and has unrestricted and immediate access to any information relating to the Company's business and affairs in the discharge of their duties. The Directors may request to be furnished with additional information or clarification, particularly in respect of complex and technical issues tabled to the Board. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

For the year ended 31 December 2014, five Board meetings of the Group were held. The attendance of the directors at the Board meetings is set out as follows:

Name of director	Number of meetings attended	Attendance rate
Mr. YE Shi Qu	5/5	100%
Mr. ZHANG Hu Ming	5/5	100%
Ms. FU Jun	5/5	100%
Mr. LIU Peng	5/5	100%
Mr. Bruno Saintes	5/5	100%
Mr. WU Chang Qi	2/2	100%
Mr. ZHAO Bin	5/5	100%
Mr. WANG Bo	5/5	100%
Mr. WANG Jie	3/3	100%

Chairman and Chief Executive Officer

For the year ended 31 December 2014, Mr. YE Shi Qu serves as the Chairman of the Group and is responsible for formulating the Group's overall strategies and business directions. Mr. ZHANG Hu Ming serves as the Deputy Chairman and General Manager of the Group. He is responsible for and devotes all his time to the daily management and operations of the Group and serves as the role of a chief executive officer. Save for Mr. YE Shi Qu who is the uncle of Mr. LIU Peng (a non-executive director of the Group), there are no family, financial, business or other relationships between the members of the Board.

Appointment and Re-election of Directors

The Group adopts a formal, considered and transparent procedure for the appointment of new Directors. The opinions of the existing Directors (including the Independent Non-executive Directors) are sought after every candidate for the position of a director is being reviewed by the Nomination Committee. Upon the adequate consideration by the Board as appropriate, the appointment will be submitted to the general meeting for approval. The existing directors are appointed with a term of three years, and the re-election or the appointment of new directors will be conducted according to the above procedures upon the expiration of the term. The Board shall from time to time review its composition with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of management and having the necessary professional expertise and experience.

Directors' Code of Ethics

The Directors observe a code of ethics that is formulated and adopted to enhance the standard of corporate governance and corporate behaviour. The principles on which such code of ethics relies are those that concern transparency, integrity, accountability and corporate social responsibility taking into account the relevant provisions/ requirements by the regulatory authorities.

Trading of Securities by Directors'

The Group has adopted the code of conduct regarding the trading of securities by Directors as set out in Appendix 10 of the Listing Rules. Upon specific enquiries made by the Group to all the Directors, each of them has confirmed having fully complied with the required standards for the year ended 31 December 2014.

Indemnities of Directors and Chief Executives

Under the code provision A.1.8, the Group should arrange appropriate insurance cover in respect of legal action against its directors. However, as the Group's businesses are relatively unitary, the Directors can easily comprehend these businesses. At the same time, the Directors are equipped with the adequate spirit and expertise in making corporate decisions. Furthermore, the Directors consider that the Management has placed emphasis on control over corporate risks from time to time, and has strictly complied with the Listing Rules and the relevant regulations. Therefore it is not necessary to purchase insurance for the Directors and Chief Executives.

Directors' training and professional development

During the year, the Directors are provided with monthly updates on the Group's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors have participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Professional Committees under the Board

Audit Committee

The Audit Committee of the Group comprises Mr. Zhao Bin (Chairman), Mr. Wang Jie and Mr. Liu Peng, the majority of whom are independent non-executive Directors of the Group.

The Audit Committee held two meetings during the year.

Members of the Audit Committee	Number of Meetings	Percentage of Attendance
Mr. Zhao Bin (Chairman)	2/2	100%
Mr. Wu Chang Qi*	1/1	100%
Mr. Liu Peng	2/2	100%
Mr. Wang Jie	1/1	100%

* After Mr. Wu Chang Qi resigned on 31 March 2014, Mr. Wang Jie was appointed as a member of the Audit Committee.

The primary duties of the Audit Committee shall be:

1. To be primarily responsible for the making of recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any issue of its resignation or dismissal;

2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. To develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

4. To monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

5. To review the Company's financial controls, internal control and risk management systems;

6. To discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experiences, training programmes and budget of the Company's accounting and financial reporting functions;

7. To consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

8. To review the Group's financial and accounting policies and practices;

9. To review the external auditor's explanatory letter on audit to management, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response to such queries;

10. To ensure that the Board will provide a timely response to the issues raised in the external auditor's explanatory letter on audit to management;

11. To report to the Board on matters as provided in the terms of references of the Committee.

The terms of references of the Audit Committee was published on the Group's website. The Group's audited financial statements as set out in this annual report have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

Remuneration Committee

The Remuneration Committee comprises three directors, namely Mr. Wang Jie (Chairman), Mr. Zhao Bin and Mr. Liu Peng. Most of them are the independent non-executive directors of the Group.

The Remuneration Committee held one meeting during the year.

Members of the Remuneration Committee	Number of Meetings	Percentage of Attendance
Mr. Wu Chang Qi (Chairman)*	1/1	100%
Mr. Zhao Bin	1/1	100%
Mr. Liu Peng	1/1	100%

* After Mr. Wu Chang Qi resigned on 31 March 2014, Mr. Wang Jie was appointed as the chairman of the Remuneration Committee.

The primary duties of the Committee shall be:

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

2. To have the delegated responsibility in determining the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of directors, employment conditions elsewhere in the Group and the adoption of performance-based remuneration;

3. To review and approve on performance-based remuneration with reference to corporate goals and objectives resolved by the Board from time to time;

4. To consider and approve the grant of share options and share appreciation rights to the eligible participants pursuant to the Share Option Scheme and the Share Appreciation Rights Scheme of the Company;

5. To prepare the annual plan for the grant of share appreciation rights pursuant to the Share Appreciation Rights Scheme of the Company, and to take up the daily administration of the Share Appreciation Rights Scheme;

6. To review and approve the compensation payable to any executive director and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. To consult the Chairman of the Board and/or the Chief Executive Officer of the Company regarding the recommendations for the remuneration of other executive directors;

8. To ensure the remuneration of the directors are appropriately disclosed according to the accounting principles and the Listing Rules in the annual report of the Company;

9. To resolve and handle other matters as delegated to the Remuneration Committee by the Board.

The terms of references of the Remuneration Committee was published on the Group's website.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Nomination Committee

The Nomination Committee comprises three directors, namely Mr. Wang Jie (Chairman), Mr. Zhao Bin and Mr. Liu Peng. Most of them are the independent non-executive directors of the Group.

The Nomination Committee held one meeting during the year.

Members of the Nomination Committee	Number of Meetings	Percentage of Attendance
Mr. Wu Chang Qi (Chairman)*	1/1	100%
Mr. Zhao Bin	1/1	100%
Mr. Liu Peng	1/1	100%

* After Mr. Wu Chang Qi resigned on 31 March 2014, Mr. Wang Jie was appointed as the chairman of the Nomination Committee.

The primary duties of the Committee shall be:

1. To review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis, and to make recommendations to the Board about any proposed change;

2. To identify individuals suitably qualified to become members of the Board, and to make recommendations to the Board for selecting or nominating candidates as directors;

3. To assess the independence of independent non-executive directors and any candidate intended to be nominated as the independent non-executive director;

4. To make recommendations to the Board on relevant matters relating to the appointment or reappointment of directors and succession planning for directors, in particular of the Chairman of the Board and the Chief Executive Officer of the Company;

5. To resolve and handle other matters as delegated to the Nomination Committee by the Board.

The terms of references of the Nomination Committee was published on the Group's website.

Corporate Governance Functions

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. To develop and review the Group's policies and practices on corporate governance and make recommendations;

2. To review and monitor the training and continuous professional development of directors and senior management;

3. To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

4. To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

5. To review the Group's compliance with the Code and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. The Directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance ("Companies Ordinance"), the International Financial Reporting Standards ("IFRSs") and all applicable disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2014, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate IFRSs which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the financial statements.

The Board is committed to providing a balanced, clear and comprehensible assessment of the financial performance and prospects of the Group in all the disclosures made to the stakeholders and the regulatory authorities.

Timely release of interim and annual results announcements reflects the Board's commitment to provide transparent and up-to-date disclosures of the results of the Group.

The Board, assisted by the Audit Committee, oversees the financial reporting process and the quality of the financial reporting of the Group. The Audit Committee reviews and monitors the integrity of the Group's annual and interim financial statements. It also reviews the appropriateness of the Group's accounting policies and the changes to these policies as well as ensures these financial statements comply with accounting standards and regulatory requirements.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report attached to the Company's 2014 Annual Report.

AUDITORS' REMUNERATION

During the Year under Review, the Group paid an aggregate of approximately RMB970,000 (2013: RMB950,000) to the external auditors for their services including audit and non-audit services.

COMPLIANCE OFFICER AND COMPANY SECRETARY

Compliance Officer: Mr. Zhang Hu Ming

Company Secretary: Mr. Shum Shing Kei (fellow member of the Hong Kong Institute of Certified Public Accountants). During the year ended 31 December 2014, Mr. Shum has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Group. The Board has developed its systems of internal controls and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Group. The executive directors and senior management of the Group have been granted corresponding authorizations to manage and monitor all operating systems of the entity and to handle the related affairs pursuant to the principles of trust and impartiality. The Audit Committee supervises the internal control system of the Group and reviews the internal audit report presented by the senior management, as well as reports any major issues and makes recommendations to the Board.

During the Year under Review and as of the date hereof, the Board considered that the prevailing internal control system of the Group is steady and is adequate to protect the interests of the shareholders, customers and employees as well as the assets of the Group. The Group has engaged sufficient employees in the accounting and finance functions, who have the resources, qualifications and experiences as well as the necessary training and budget.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Besides, pursuant to the Articles of Association, shareholder(s) holding 5% or more of the total voting shares of the Company shall have the right to propose new motions to be included in the agenda of the Company's annual general meeting. The Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of the general meetings. In addition, shareholder(s) individually or collectively holding 10% or more of the Company's issued and outstanding voting shares may request(s) in writing for the convening of an extraordinary general meeting. All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tiandapipe.com) immediately after the relevant general meetings.

There have been no significant changes in the Company's constitutional documents during the Year.

INVESTORS RELATIONS

The Board and senior management recognize their responsibility to represent the interests of all shareholders and to maximize shareholder's value and have made the following commitments to the Group:

- continuing effort to maintain long-term stability and growth in shareholder value and return on investment;
- responsible planning, establishment and operation of the Group's core businesses;
- responsible management of the Group's investment and business risks; and
- true, fair and detailed disclosure of the financial position and operating performance of the Group.

The Group believes that shareholders' rights should be well respected and protected. The Group endeavors to maintain good communications with shareholders on its performance through interim reports, annual reports, general meetings and public disclosure on the Company's website, so that they may make an informed assessment of their investments and exercise their rights as shareholders. The Group also encourages shareholders' participation through general meetings or other means.

For the purpose of promoting the mutual communication between the Group, its shareholders and potential investors on a regular basis, the Group has set up an investor relations office to respond to the questions and enquiries from shareholders and the general public. For any enquiries, investors may write directly to the Group at its place of business in the PRC (No.4, Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the PRC) or e-mail to chendong@td-gg.com. They may also call us directly by phone.

REPORT OF THE DIRECTORS

The Board is pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Group is engaged in the research and development, production and sales of specialized seamless pipes.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2014 are set out in the income statement and the accompanying Notes to the financial statements on page 36 to page 92 of this report.

The board has recommended the payment of a final dividend of RMB4 cents per share (inclusive of tax) and a special dividend of RMB12 cents per share (inclusive of tax) in respect of the year ended 31 December 2014. Dividends payable to holders of domestic shares will be paid in RMB, while dividends payable to holders of H shares will be paid in Hong Kong dollars. The final dividends and special dividends are expected to be paid on or about 30 July 2015 to the shareholders whose names appear on the register of members of the Company on 12 July 2015 subject to the approval at the annual general meeting (the "AGM") on 30 June 2015.

The registers of members of the Company will be closed from 20 June 2015 to 30 June 2015 (both days inclusive) during which period no H Share or Domestic Share transfer will be effected. In order to quality for attending and voting at the AGM, all instrument of transfer must be lodged with the share registrar of the Company's H Shares at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, or in respect of transfers of Domestic Shares, relevant transfer documents must be lodged with the registered address of the Company at Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, PRC, not later than 4:30 p.m. on 19 June 2015.

For the purpose of ascertaining shareholders' entitlement to the proposed final and special dividends, the register of members of the Company will be closed from 7 July 2015 to 12 July 2015, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final and special dividends (subject to shareholders' approval at the AGM), all instrument of transfer must be lodged with the share registrar of the Company's H Shares at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, or in respect of transfers of Domestic Shares, relevant transfer documents must be lodged with the registered address of the Company at Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, PRC, not later than 4:30 p.m. on 6 July 2015.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year of 2014 are set out in note 16 of the Notes to the financial statements.

SHARE CAPITAL

Details of the issued share capital of the Group are set out in note 28 of the Notes to the financial statements.

DISTRIBUTABLE RESERVE

Following the listing of H Shares of the Group, the Group's reserves available for distribution to shareholders is the lower of its accumulated profits after tax as stated in the statutory financial statements in the People's Republic of China (the "PRC") and the financial statements prepared under International Financial Reporting Standards (the "IFRS"). As at 31 December 2014, the Group's distributable reserve after such comparison and before deducting the proposed dividend for 2014 represents its accumulated profits prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC (the "PRC GAAP") of approximately RMB604,943,000 (31 December 2013: accumulated profits prepared in accordance with PRC GAAP of approximately RMB714,162,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, sales to the five largest customers of the Group accounted for less than 30% of the Group's total turnover. For the year ended 31 December 2014, purchases from the Group's largest supplier and five largest suppliers accounted for approximately 20.6% and 73.9% respectively of the Group's total purchases.

None of the directors, the supervisors (the "Supervisors") of the Group and their associates or any Shareholders (which to the knowledge of the directors owned more than 5% of the Group's Shares) have an interest in any of the Group's five largest customers or suppliers.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Ye Shi Qu, aged 65. He is a deputy to the Eleventh and Twelfth National People's Congress and the chairman and an executive director of the Group. Ye Shi Qu is responsible for formulating the overall strategies and business directions of the Company. Ye Shi Qu is the founder of Anhui Tianda Enterprise (Group) Company Limited ("**Tianda Holding**") and has been its actual controlling party since then. Ye Shi Qu had been awarded the Model of National Agricultural Labour, National Excellent County Entrepreneur, Third China Best Entrepreneur of Privately owned Enterprises, Nationwide Outstanding Huizhou Merchant and Top Ten Entrepreneur in Anhui Province. Ye Shi Qu is also the Deputy Chairman of the China Individual Labourers' Association, Enterprises Association and Entrepreneur Association of Anhui Province, Association of Industry and Commerce of Anhui Province and the Deputy Chairman of the Federation of Industrial Economics of Anhui Province. Ye Shi Qu was appointed as a director in April 2006 and was re-elected as a director on director reelection in April 2009 and May 2012, and has been involved in the Group's business since 1993 (when it was then operated by one of the Group's predecessors). Ye Shi Qu is the uncle of Liu Peng, a non-executive director.

Mr. Zhang Hu Ming, aged 46. He is the deputy chairman, an executive director, the general manager and a member of the Strategy and Risk Control Committee of the Board of the Group. Zhang Hu Ming is responsible for the daily management and operations of the Company. Zhang Hu Ming has extensive experience in the specialized seamless pipe industry and its management with about two decades of experience in the industry. Since 1995, Zhang Hu Ming was the head of Tianda Seamless Steel Pipe Factory, the head of Tianda Tianchang Seamless Steel Pipe Factory and the general manager of Tianda Specialized Steel Pipe Company. With his outstanding capabilities in business operations and management, Zhang Hu Ming was awarded National Excellent County Entrepreneur in 2005 and was a deputy of the Tenth, Eleventh and Twelfth Session of the Anhui Province People's Congress. Zhang Hu Ming graduated from the Department of Business Management in Chuzhou College (formerly known as the Vocational School for Education in Chuzhou) in 1991 with post-secondary qualification. He has also obtained a Diploma in National Economics from the Business School of Nanjing University in July 2002. Zhang Hu Ming was appointed as a director in April 2006 and reappointed as a director in April 2009 and May 2012 respectively and has been involved in the Group's business since 1993 (when it was then operated by one of the Group's predecessors).

Ms. Fu Jun, aged 46. She is an executive director, the deputy general manager and chief Financial officer of the Group. Fu Jun graduated from Shenzhen University in 1990, majoring in accounting, and received an EMBA degree from China Europe International Business School (CEIBS) in 2001. She has 16 years' experience as Finance Controller or CFO in listed companies and Sino-Joint Ventures and 7 years' extensive experience in providing auditing and financial consulting services. She had worked for Beijing Huahui Electronics Co., Ltd., Arthur Andersen LLP., Schneider (Beijing) Medium Voltage Co., Alpharma AHD, Shanghai GE Breakers Co., Ltd., Lafarge (China) Bejing Chinefarge Cement CO. LTD. and EOOS (China) Consulting Co., Ltd. In April 2011, she was the deputy general manager and the chief financial officer of the Group and was appointed as an executive director in June 2011.

Non-executive Directors

Mr. Liu Peng, aged 38. He is a non-executive director and a member of the Remuneration Committee, the Nomination Committee and the Audit Committee of the Board of the Group. Liu Peng graduated from the Department of Finance in Nankai University in 1997. He was awarded a degree of Master of International Business Administration jointly by the Institute of Economics and Management of Tsinghua University and Sloan School of Management under Massachusetts Institute of Technology in the US in 2003. Liu Peng has over 10 years of experience in corporate capital operation and corporate management. Liu Peng was appointed as a non-executive director in April 2006 and was reappointed as a non-executive director of the Group on director re-election in April 2009 and May 2012 respectively. Liu Peng is the nephew of Ye Shi Qu, the Chairman.

Mr. Bruno Saintes, aged 54. He is a non-executive director of the Group. Mr. Bruno Saintes joined Vallourec Group since January 2008 and acted as CEO of VALTI Company in charge of producing and selling tubes for the bearing industry. Since November 2011, he acts as Managing Director of VMOG (China) Trading Co. and since august 2013 as managing delegate of Vallourec China, Ltd. Mr. Bruno Saintes obtained a MS Degree in automatic and controlling from ENSM (ecole Centrale de Nantes) in 1984 and Master of Business Administration from IAE in 1993. He joined the Advanced Research Center of Clermont-Ferrand of Michelin Company in 1986 and worked in Rhodia Company as Worldwide Supply Chain Director of pharmaceutical business unit, CAPEX Financial Controller and others during the period from 1990 to 2000. In September 2000, Mr. Bruno Saintes acted as Worldwide Purchasing Director for Transport and Logistics of Renault Company engaging in manufacture of motor vehicles. From 2003 to 2007, Mr. Bruno Saintes acted as Freight Business Director of French Railway Company. Bruno Saintes was appointed as a non-executive director of the Group in May 2012.

Independent Non-executive Directors

Mr. Zhao Bin, aged 49. He is an independent non-executive director, a member of the Remuneration Committee and Nomination Committee and the chairman of the Audit Committee and the Strategy and Risk Control Committee of the Board of the Group. Zhao Bin is a PRC registered accountant and a PRC registered valuer. Zhao Bin was appointed as an independent non-executive director in July 2006. Zhao Bin is the partner of Beijing Branch Office of Daxin Certified Public Accountants. Between 1996 and 2008, Zhao Bin was engaged by the auditing and valuation department at Anhui Huapo Accounting Firm (Jinhai Branch Office), Beijing Zhongxing Xinshizi Accounting Firm and Shulun Pan Certified Public Accountants (Beijing Branch Office). Zhao Bin was also engaged in the teaching and academic research of accounting, auditing, financial management and securities investment at Anhui Polytechnic University. In 1991 and 2007, Zhao Bin was awarded a master's degree by Anhui Polytechnic University (formerly known as Huainan Mining College) and a doctoral degree by China Mining University in Beijing, respectively. He was appointed as an independent non-executive director in April 2006 and was reappointed as an independent non-executive director of the Group on director re-election in April 2009 and May 2012 respectively.

Mr. Wang Bo, aged 49. He is an independent non-executive director of the Group and a member of the Risk Control Committee of the Board of the Group. He is now Partner of CEL Partners. Prior to joining CEL Partners, Wang Bo was a founding Partner of the China Private Equity Fund of LCF Rothschild, Vice-President of Carrefour China, CFO of Promodes China and also spent more than 10 years in international banking sector. Bo holds a TRIUM Global MBA Degree from HEC, NYU Stern and the LSE. He also graduated from ENA in France and Beijing Foreign Studies University in China. Wang Bo was appointed as an independent non-executive director of the Group in July 2012.

REPORT OF THE DIRECTORS (CONTINUED)

Mr. Wang Jie, aged 62. He is an independent non-executive director and the chairman of the Remuneration Committee and a member of Nomination Committee and Audit Committee. Mr. Wang was graduated from the Economics Department of Anhui University in 1986 and graduated from the Anhui Class in the Central Party School of the Chinese Community Party in 1999. Mr. Wang had been working for nearly 40 years in the labour and employment department of Anhui Provincial Government, and had acted as former Deputy Head and Head of the Employment Department of Labour Bureau of Anhui Province, the Head of the Labour Inspection Department of Labour and Social Security Office of Anhui Province, the Head of the Law Enforcement Inspection Bureau of Human Resources and Social Security Office of Anhui Province. During his tenure in the government departments, he was responsible for overseeing the labour and employment security work of enterprises in Anhui Province, and he accumulated experience in corporate employment, remuneration management and other aspects. He was appointed as an independent non-executive director of the Group in May 2014.

Supervisors

Ms. Huang Yao Qi, aged 52. She is the chairman of the Supervisory Committee of the Group. Ms. Huang was graduated from Hefei Industrial University in 2002. Ms. Huang has been working in the field of financial accounting, financial analysis and financial management for more than 20 years and she is well experienced in these aspects. She joined in the Company in August 2004, and acted as the Company's financial controller since May 2006 until the reorganization following Vallourec becomes the Company's substantial shareholder. She was appointed as a supervisor of the Group in May 2014.

Mr. Didier Maurice Francis Hornet, aged 51. He is a supervisor of the Group. Mr. Didier Maurice Francis HORNET is Vallourec Group's managing director, OCTG Division. He obtained a MS Degree in Aeronautics Engineering from ENSMA Poitiers in 1987 and Master of Business Administration from IAE Paris-Sorbonne in Paris. He graduated from Harvard Executive AMP Program in 2009 (AMP 176). He joined Vallourec Group in 1993. He became a managing director of VMOG UK in Aberdeen in 2002 and leading the Vallourec Oil & Gas Business in the North Sea, managing director at OCTG Division for North America in 2004 and a managing director of the OCTG Division worldwide and member of the Executive Committee of the Vallourec Group (March 2010 – present). He was appointed as a supervisor of the Group in June 2011.

Mr. Yang Quan Fu, aged 40. He is a supervisor from staff representative of the Group. Yang Quan Fu graduated with a college degree from Hefei Industrial University with a major in economies management in June 2002. Yang Quan Fu has been engaged in the production and management related activities of the Group since he first joined the predecessor of the Group in December 1994. He was appointed as a supervisor from staff representative of the Group in April 2006 and was reappointed as a supervisor from staff representative on supervisor re-election in April 2009 and May 2012 respectively.

Senior Management

Mr. Zhang Hu Ming, aged 46. He is the general manager of the Group. Details please refer to the section of the Directors' Biography details.

Mr. Yong Jin Gui, aged 40. He is the standing general manager of the Group. Yong Jin Gui graduated with a bachelor degree from Anhui Agricultural University with a major in agricultural machinery. He joined the Tianda Holdings after graduation and he has approximately 10 years of experience in corporate management. He was appointed as a director of Tianda Holding in July 2004. He was appointed as a supervisor of the Group in April 2006 and was reappointed as a supervisor on supervisor re-election in April 2009, and resigned as a supervisor as result of the reorganization of the Group in April 2011. He has been involved in the Group's business since August 2004 (when it was then operated by one of the Group's predecessors). Yong Jin Gui is also a director of several subsidiaries of Tianda Holdings. He was appointed as the standing general manager of the Group in June 2011 and responsible for assisting the general Manager with daily operation management of the company.

Ms. Fu Jun, aged 46. She is the deputy general manager and the chief financial officer of the Group. Details please refer to the section of the Directors' biography details.

Mr. Wang Yi, aged 43. He is the deputy general manager of the Group. Wang Yi graduated with a bachelor degree from Anhui Mechanical and Electrical Institute with a major in heat treatment in 1997. Wang Yi joined the Group after graduation and has been involved in the business of the Group (it was then operated by one of the Group's predecessors) since July 1997. In October 2005, he was appointed as the deputy general manager of one of the Group's predecessors. In May 2006, he was appointed as the deputy general manager of the Group and is in charge of Chuzhou City production plant.

Mr. Li Shun, aged 41. He is the deputy general manager of the Group and the chief sales director of OCTG. Li Shun graduated with a bachelor degree from Shanghai Jiaotong University with a major in electrical engineering in 1995 and obtained a master degree in international trade from University of International Business and Economics News in 1999. He joined Vallourec & Mannesmann Tubes (Beijing) Co., Ltd. as the sales director of Petroleum and natural gas Department in December 2009. Before joining Vallourec, Li Shun had worked for Tyco Electronics Corporation and National Oilwell Varco. He has over 10 years' sales experience with 7 years working in Petroleum and natural gas sector. He is the deputy general manager of the Group and chief sales director of OCTG since April 2011, assisting sales activities of OCTG products of the Company.

Mr. Zhang Chun Xiang, aged 43. He is the chief engineer of the Group. Zhang Chun Xiang graduated with a bachelor degree from Anhui Mechanical and Electrical Institute with a major in heat treatment in 1993. He joined the Group after graduation and has been involved in the Group's business since July 1993 (when it was then operated by one of the Group's predecessors). He has been engaged in quality control and technology management for over 10 years. He was the head of quality inspection division and technology division. During these years, Zhang Chun Xiang has been committed to the research and development division. New products researched and developed by him were awarded numerous incentives by the government. In October 2005, he was appointed as the chief engineer of Tianda Specialized Steel Pipe Company. In May 2006, he was appointed as the chief engineer of the Group and in charge of the research and refining of new products, research and development of products and research of techniques.

Mr. Chen Dong, aged 35. He is the secretary of the Board of the Directors of the Group. Chen Dong graduated with a bachelor's degree in Law Studies from institution of higher education. He is an associated member of Hong Kong Institute of Chartered Secretaries. Chen Dong was appointed as the Secretary of the Board of the Group with the effect from April 2006. Prior to joining the Group, he was the head for the corporate office of Tianda Holding and the Secretary to the Board. He has over 10 years of experience in corporate internal control management, monitoring and compliance.

COMPLIANCE OFFICER

Mr. Zhang Hu Ming, is the deputy chairman, an executive director, the general manager and a member of the Strategy and Risk Control Committee of the Board of the Group. Mr. Zhang's biographical information is set out in the paragraph headed "Executive Directors" in this section. Mr. Zhang advises on and assists the Board in implementing procedures to ensure that the Group complies with the Listing Rules and other relevant laws and regulations applicable to the Group and is responsible for responding efficiently to all enquiries directed to the Group by the Stock Exchange.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive and non-executive directors has entered into a service contract with the Group for a term of 3 years. These contracts are determinable by the Group upon occurrence of certain conditions as set out in these contracts or upon expiry of these contracts.

Other than as disclosed above, none of the directors of the Group has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the interest of the directors, supervisors and chief executive of the Group in the shares, underlying shares or debentures of the Group and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which will be required to be notified to the Group and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, were as follows:

Domestic shares of RMB0.5 each of the Company

Name of Directors or Supervisors	Number of shares	Nature of Interest	notes	Percentage of total number of Shares in Issue (%)
Ye Shi Qu	510,000,000(L)	Interest in controlled corporation	(1)	50.61%
Ye Shi Qu	510,000,000(S)	Interest in controlled corporation	(1)	50.61%
Ye Shi Qu	1,632,000,000(L)	Interest in controlled corporation and concert parties	(3)	161.97%
Zhang Hu Ming	1,632,000,000(L)	Concert parties	(3)	161.97%

H shares of RMB0.5 each of the Company

Name of Directors or Supervisors	Number of shares	Nature of Interest	notes	Percentage of total number of Shares in Issue (%)
Ye Shi Qu	864,000,000(L)	Interest in controlled corporation and concert parties	(2), (3)	85.75%
	29,719,000(L)	Interest in controlled corporation	(4)	2.95%
Ye Shi Qu	20,000,000(S)	Interest in controlled corporation	(2)	1.99%
Zhang Hu Ming	864,000,000(L)	Concert parties	(3)	85.75%

(L) refers to the long position
(S) refers to the short position

Beneficial interest

Name of Company	Name of Director or Supervisor	Beneficial Interest/ Total amount of Capital Contribution	Nature of Interest	notes	Percentage holding of shares/interest in registered capital of the relevant associated corporation (%)
Tianda Holding	Ye Shi Qu	RMB198,985,900	Beneficial owner		85.14%
Tianda Investment	Ye Shi Qu	RMB50,000,000	Interest in controlled corporation	(1), (2)	100%
Tiancheng Changyun	Ye Shi Qu	HK$46,681,980	Interest in controlled corporation	(1), (2)	100%
Tianfa International	Ye Shi Qu	US$6,000,000	Interest in controlled corporation	(4)	100%
Tianda Holding	Zhang Hu Ming	RMB9,166,700	Beneficial owner		3.92%

Notes:

1. Ye Shi Qu holds 85.14% of the equity interest in Tianda Holding. Tianda Holding holds (i) 408,000,000 domestic shares of the Company with long position; (ii) 408,000,000 domestic shares of the Company with short position; and (iii) 100% of the equity interest in Tianda Investment.

   Tianda Investment holds (i) 102,000,000 domestic shares with long position; and (ii) 102,000,000 domestic shares with short position in the Company. Accordingly, Ye Shi Qu is deemed to be interested in all of (i) 510,000,000 domestic shares with long position; and (ii) 510,000,000 domestic shares with short position in the Company.

2. Ye Shi Qu holds 85.14% of the equity interest in Tianda Holding. Tianda Holding holds 95% of the equity interest in Anhui Tianda (Group) Co., Ltd, which in turn holds 100% of the equity interest in Tiancheng Changyun, which in turn holds (i) 216,000,000 H shares with long position; and (ii) 20,000,000 H shares with short position in the Company. Accordingly, Ye Shi Qu is deemed to be interested in (i) 216,000,000 H shares with long position; and (ii) 20,000,000 H shares with short position in the Company.

3. Vallourec & Mannesmann Tubes ("Vallourec Tubes"), Tianda Holding, Tianda Investment, Tiancheng Changyun, Ye Shi Qu and Zhang Hu Ming entered into Shareholders Agreement on 15 September 2010. Section 317 of the SFO shall apply to this agreement. Vallourec Tubes, Tianda Holding, Tianda Investment, Tiancheng Changyun, Ye Shi Qu and Zhang Hu Ming are concert parties with each other in relation to (i) 1,632,000,000 domestic shares and (ii) 864,000,000 H shares jointly held by them.

4. Ye Shi Qu holds 85.14% of equity interest in Tianda Holding which holds 100% equity interest in Tianda Investment. Tianda Investment holds 87% equity interest in 安徽天大企業(集團)塑料複合製品有限公司 which further holds equity interest in Tianfa International. Tianfa International holds 29,719,000 H Shares. Accordingly, Ye Shi Qu is deemed to be interested in these additional 29,719,000 H Shares in the Company.

Other than as disclosed above, none of the directors, the supervisors and chief executives of the Group nor their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Group and any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Group under section 352 of the SFO as at 31 December 2014.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

So far as is known to the directors, supervisors and chief executives of the Group, as at 31 December 2014, none of the directors, supervisors or chief executives of the Group nor any of their spouses and children under 18 years of age had any interests in, or has been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Group or to acquire H Shares.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED AND RELATED PARTY DISCLOSURE" stated in note 33 of the Notes to the Financial Statements, no contract of significance in relation to the Group's business, to which the Group was a party and in which a director or a supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE GROUP

So far as the directors or chief executive of the Group are aware, as at 31 December 2014, the following persons had an interest or short position in the shares and underlying shares of the Group which were recorded pursuant to section 336 of the SFO in the register referred to therein:

Domestic shares of RMB0.5 each of the Company

Name of Substantial Shareholders	Number of shares	Nature of Interest	notes	Percentage of total number of issued domestic shares (%)	Percentage of total number of Shares in Issue (%)
Tianda Holding	408,000,000 (S)	Beneficial owner	(1)	80%	40.49%
	102,000,000 (S)	Interest in controlled corporation	(1)	20%	10.12%
	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
Tianda Investment	102,000,000 (S)	Beneficial owner		20%	10.12%
	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
Tiancheng Changyun	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
Vallourec S.A.	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
	510,000,000 (L)	Interest in controlled corporation	(2)	100%	50.61%
Vallourec Tubes	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
	510,000,000 (L)	Beneficial owner		100%	50.61%

(L) refers to the long position
(S) refers to the short position

H shares of RMB0.5 each of the Company

Name of Substantial Shareholders	Number of Shares	Nature of interest	notes	Percentage of total number of issued H shares (%)	Percentage of total number of Shares in Issue (%)
Tianda Holding	864,000,000 (L)	Concert parties	(3), (4)	173.62%	85.75%
	20,000,000 (S)	Interest in controlled corporation	(3)	4.02%	1.99%
	29,719,000 (L)	Interest in controlled corporation	(5)	5.97%	2.95%
Tiancheng Changyun	864,000,000 (L)	Concert parties	(4)	173.62%	85.75%
	20,000,000 (S)	Beneficial owner	(3)	4.02%	1.99%
Tianda Investment	864,000,000 (L)	Concert parties	(4)	173.62%	85.75%
	29,719,000 (L)	Interest in controlled corporation	(5)	5.97%	2.95%
Vallourec S.A.	864,000,000 (L)	Concert parties	(4)	173.62%	85.75%
	196,000,000 (S)	Interest in controlled corporation	(2)	39.39%	19.45%
Vallourec Tubes	864,000,000 (L)	Concert parties	(2), (4)	173.62%	85.75%
	196,000,000 (S)	Interest in controlled corporation	(2)	39.39%	19.45%
Templeton Asset Management, Ltd.	64,833,697 (L)	Investment Manager		13.03%	6.43%
JPMorgan Chase & Co.	3,950,000 (L)	Beneficial owner		6.99%	3.45%
	30,834,841 (L)	Custodian corporation/ approval lending agent			
	34,784,841 (L)				

(L) refers to the long position
(S) refers to the short position

Notes:

1. Tianda Holding holds (i) 408,000,000 domestic shares in the Company with short position; and (ii) 100% of the equity interest in Tianda Investment. Tianda Investment holds 102,000,000 domestic shares in the Company with short position. Accordingly, Tianda Holding is deemed to be aggregately interested in 510,000,000 domestic shares in the Company with short position.

2. Vallourec S.A. holds 100% of the equity interest in Vallourec Tubes, which in turn holds (i) 510,000,000 domestic shares with long position; (ii) 864,000,000 H shares with long position; and (iii)196,000,000 H shares with short position in the Company. Accordingly, Vallourec S.A. is deemed to be interested in (i) 510,000,000 domestic shares with long position; (ii) 864,000,000 H shares with long position; and (iii) 196,000,000 H shares with short position in the Company.

REPORT OF THE DIRECTORS (CONTINUED)

3. Tianda Holding holds 95% of the equity interest in Anhui Tianda (Group) Co., Ltd, which in turn holds 100% of the equity interest in Tiancheng Changyun, which in turn holds (i) 216,000,000 H shares with long position; and (ii) 20,000,000 H shares with short position in the Company. Accordingly, Tianda Holding is deemed to be interested in (i) 216,000,000 H shares with long position; and (ii) 20,000,000 H shares with short position in the Company.

4. Vallourec Tubes, Tianda Holding, Tianda Investment, Tiancheng Changyun, Ye Shi Qu and Zhang Hu Ming entered into Shareholders Agreement on 15 September 2010. Section 317 of the SFO shall apply to this agreement. Vallourec Tubes, Tianda Holding, Tianda Investment, Tiancheng Changyun, Ye Shi Qu and Zhang Hu Ming are concert parties with each other in respect of (i) 1,632,000,000 domestic shares and (ii) 864,000,000 H shares jointly held by them.

5. Ye Shi Qu holds 85.14% of equity interest in Tianda Holding which holds 100% equity interest in Tianda Investment. Tianda Investment holds 87% equity interest in 安徽天大企業(集團)塑料複合製品有限公司 which further holds equity interest in Tianfa International. Tianfa International holds 29,719,000 H Shares. Accordingly, Ye Shi Qu is deemed to be interested in these additional 29,719,000 H Shares in the Company.

Save as disclosed above, as at 31 December 2014, the directors were not aware of any persons or entities (other than the directors, supervisors and chief executive of the Group) who had an interest or short position in the shares or underlying shares of the Group as recorded on 31 December 2014 in the register required to be kept by the Group under section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

On 12 February 2014, the Company entered into an extension of sales agreement (the "Extension Agreement") with Vallourec Oil & Gas France, VOG (China) Trading Co., Ltd. and Seamless Tubes Asia Pacific Pte. Ltd., pursuant to which, the Company appoints the Distributors as its exclusive distributor for the promotion and sale of seamless casing and tubing and/or plain end or green pipe for seamless casing and tubing and/or drill pipe applications, manufactured by the Company (the "Products"), worldwide except in the PRC (the "Territory"). The Company shall sell the Products only to the Distributors for resale in the Territory, and the Company shall not sell the Products to users in the Territory.

The Extension Agreement shall be effective for the year ended 31 December 2014 and the Annual Cap for the year ended 31 December 2014 was RMB1,000,000,000.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules. The auditors' letter confirmed that nothing has come to their attention that cause them to believe that the aforesaid continuing connected transactions (1) have not been approved by the board of directors of the Company; (2) are not, in all material respects, in accordance with the pricing policies of the Group; (3) have not been entered into, in all material respects, in accordance with the terms of the relevant agreements governing the transactions; and (4) have exceeded the maximum aggregate annual value disclosed in the previous announcements made by the Company.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and in note 33 to the financial statements and have confirmed that the continuing connected transactions have been entered into (1) in the ordinary and usual course of business of the Company; (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In addition, on 7 November 2014, the Company entered into a new sales agreement with Vallourec Oil & Gas France, VOG (China) Trading Co., Ltd, Vallourec Asia Pacific Corp Pte., Ltd., (formerly known as Seamless Tubes Asia Pacific Pte. Ltd.) and Vallourec Middle East FZE (all of which are the subsidiaries of Vallourec), pursuant to which the Company appoints the Distributors as (i) its exclusive distributor for the promotion and sale of seamless casing and tubing and/or plain end or green pipe for seamless casing and tubing and/or drill pipe applications, manufactured by the Company ("Oil Pipe Products"), worldwide except in the PRC (the "Territory"). The Company shall sell the Oil Pipe Products only to the Distributors for resale in the Territory, and the Company shall not sell the Oil Pipe Products to users in the Territory; (ii) its exclusive distributor of premium products (the "Premium Products") but limiting to the condition where the Distributors purchase and further process the Premium Products into premium products threaded with premium connection for re-sales worldwide; and (iii) as its non-exclusive distributor for promotion and sales of products other than the Oil Pipe Products and Premium Products ("Other Products") within the Territory.

The New Sales Agreement shall be effective for the three years ending 31 December 2017 and the Annual Caps for the year ending 31 December 2015, 2016 and 2017 are RMB1,000,000,000, RMB1,200,000,000 and RMB1,400,000,000, respectively.

The New Sales Agreement, the continuing connected transactions contemplated thereunder and the Annual Caps were approved by the Company's independent shareholders at the special general meeting dated 23 January 2015.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the rules set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules as the code for dealing in securities of the Group by the Directors (the "Code"). All directors have complied with the required standard as set out in the Code since the listing of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31 December 2014, the directors are not aware of any business or interest of the directors, the supervisors and management shareholders of the Group and their respective associates (as defined under the Listing Rules) that compete or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such person has or may have with the Group. All directors have confirmed that they have complied with the non-competition provisions under their respective service contracts with the Group since the listing of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Group or the laws of the PRC, which would oblige the Group to offer new Shares on a pro-rata basis to existing Shareholders.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events occurred after the Balance Sheet Date are set out in Note 38 to the Financial Statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Group has not purchased or redeemed any of its listed securities during the year ended 31 December 2014.

AUDITORS

The financial statements for the year ended 31 December 2014 prepared under the IFRS have been audited by Ernst & Young. The Group's Audit Committee has recommended and acquired the approval of the directors to propose at the forthcoming annual general meeting a resolution to reappoint Ernst & Young to act as the auditor of the Group for the year 2015.

By Order of the Board
Ye Shi Qu
Chairman

Anhui, the PRC, 23 March 2015

REPORT OF THE SUPERVISORS

In 2014, in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "**Company Law**") and Articles of Association of the Group, and in compliance with the principle of integrity, all members of the Supervisory Committee of the Group (the "**Supervisory Committee**") performed their duties of supervision on the Board's decision making with a view to protecting shareholders' interests in line with the Board's accountability to all shareholders. The Supervisory Committee monitored the operations and financial position as well as the performance of senior management of the Group for the year 2014. On behalf of the Supervisory Committee, I hereby present our report for 2014:

1. OVERVIEW OF THE WORK OF THE SUPERVISORY COMMITTEE

The Supervisory Committee conducted on-site inspections of the operations and financial position of the Group, and reviewed the financial statements of the Group. In 2014, the Supervisory Committee held 2 meetings and the holding of such meetings were in compliance with the relevant provisions of the Company Law and the Articles of Association of the Group.

The Supervisory Committee has duly supervised and examined the procedures for convening board meetings, resolutions, execution of resolutions of shareholders' general meetings by the Board, performance of duties by senior management of the Group, as well as the healthy establishment and consistent implementation of the Group's internal management system.

The Supervisory Committee is of the view that the Board and senior management of the Group operated in accordance with the Company Law, Securities Law of the PRC, the Articles of Association of the Group as well as other relevant rules and regulations of Hong Kong, and all operating activities were in compliance with laws and regulations. Through the adoption of various systems, the Group further improved its corporate governance structure and internal management policies which have formed the basic internal control system of the Group. When examining the financial position of the Group and monitoring the performance of Directors and senior management of the Group, the Supervisory Committee was not aware of any act detrimental to the interests of the Group and shareholders as a whole, nor was there any act in breach of laws, regulations, the articles of association or rules and policies of the PRC and Hong Kong.

2. EXAMINATION OF FINANCIAL POSITION OF THE GROUP

The Supervisory Committee earnestly examined the financial statements and the annual report of the Group for 2014 issued by the auditors of the Group.

The Supervisory Committee considers that the audited financial statements truly and sufficiently reflect the operating results and asset positions of the Group. The Supervisory Committee also reviewed the Director's report and the profit distribution proposal. The Group considers that the above report and proposal meets the requirements of the relevant regulations and the Articles of Association of the Group. The Supervisory Committee attended the meetings of the Board of Directors (the "**Board**") and considers that the members of the Board and other senior management of the Group have strictly complied with the principle of honesty and trustworthiness, worked diligently and acted sincerely in the best interests of the Group. As at the date of this report, the Supervisory Committee was not aware of any of the directors and the senior management of the Group having abused their powers, caused damage to the interests of the Group or infringed upon the interests of the Group and its staff, nor have they violated any laws, regulations or the Group's Articles of Association.

3. CONNECTED TRANSACTIONS

The Supervisory Committee is of the view that the connected transactions of the Group for 2014 were conducted on the principles of fairness and equality at reasonable prices. No act detrimental to shareholders' interests as a whole was found.

Huang Yao Qi
Chairman of the Supervisory Committee
Anhui, the PRC

23 March 2015

INDEPENDENT AUDITORS' REPORT

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To the shareholders of Anhui Tianda Oil Pipe Company Limited
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Anhui Tianda Oil Pipe Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

23 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Notes	**2014** **RMB'000**	2013 RMB'000
REVENUE	5	**2,881,955**	3,309,690
Cost of sales		**(2,635,524)**	(3,080,350)
Gross profit		**246,431**	229,340
Other income and gains	6	**36,086**	26,410
Selling and distribution expenses		**(140,171)**	(138,791)
Administrative expenses		**(39,251)**	(37,376)
Other expenses	6	**(18,826)**	(1,144)
Finance costs	7	**(6,853)**	(12,077)
PROFIT BEFORE TAX	8	**77,416**	66,362
Income tax expense	11	**(19,637)**	(17,077)
PROFIT FOR THE YEAR		**57,779**	49,285
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be classified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Reclassification adjustments for gains included in profit or loss		**–**	(680)
Income tax effect		**–**	170
Other comprehensive income for the year, net of tax		**–**	(510)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**57,779**	48,775
Profit attributable to:			
Owners of the parent		**57,779**	49,285
Total comprehensive income attributable to:			
Owners of the parent		**57,779**	48,775
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB cents)	14	**5.73**	4.89

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	**2014** **RMB'000**	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,156,880**	1,293,277
Prepaid land lease payments	17	**25,358**	26,011
Deferred tax assets	11	**5,094**	–
Total non-current assets		**1,187,332**	1,319,288
CURRENT ASSETS			
Inventories	19	**547,714**	568,945
Trade and notes receivables	20	**559,404**	429,288
Prepayments, deposits and other receivables	21	**170,113**	361,352
Derivative financial instruments	22	**–**	14,414
Held-to-maturity investments	23	**–**	12,000
Cash and cash equivalents	24	**474,910**	481,103
Total current assets		**1,752,141**	1,867,102
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	25	**186,205**	147,213
Derivative financial instruments	22	**2,177**	–
Trade and notes payables	26	**306,809**	496,328
Tax payable	11	**13,866**	7,597
Other payables and accruals	27	**204,498**	205,633
Total current liabilities		**713,555**	856,771
NET CURRENT ASSETS		**1,038,586**	1,010,331
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,225,918**	2,329,619

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2014

	Notes	**2014** **RMB'000**	2013 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	11	**–**	260
Total non-current liabilities		**–**	260
NET ASSETS		**2,225,918**	2,329,359
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	28	**503,813**	503,813
Reserves	29	**1,560,885**	1,664,326
Proposed final dividend	12	**161,220**	161,220
TOTAL EQUITY		**2,225,918**	2,329,359

Ye Shi Qu
Director

Zhang Hu Ming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Attributable to owners of the parent						
	Issued capital RMB'000 (note 28)	Share premium account RMB'000 (note 28)	Available-for-sale investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (note 29)	Retained profits RMB'000 (note 29)	Proposed final dividend RMB'000 (note 12)	Total RMB'000
1 January 2013	503,813	1,002,166	510	104,289	669,806	31,236	2,311,820
Profit for the year	–	–	–	–	49,285	–	49,285
Other comprehensive income for the year: Changes in fair value of available-for-sale investments, net of tax	–	–	(510)	–	–	–	(510)
Total comprehensive income for the year	–	–	(510)	–	49,285	–	48,775
Appropriation of statutory surplus reserve	–	–	–	4,929	(4,929)	–	–
Final 2012 dividend declared	–	–	–	–	–	(31,236)	(31,236)
Proposed final 2013 dividend	–	–	–	–	(161,220)	161,220	–
At 31 December 2013 and 1 January 2014	503,813	1,002,166	–	109,218	552,942	161,220	2,329,359
Profit for the year	–	–	–	–	57,779	–	57,779
Total comprehensive income for the year	–	–	–	–	57,779	–	57,779
Appropriation of statutory surplus reserve	–	–	–	5,778	(5,778)	–	–
Final 2013 dividend declared	–	–	–	–	–	(161,220)	(161,220)
Proposed final 2014 dividend	–	–	–	–	(161,220)	161,220	–
At 31 December 2014	503,813	1,002,166*	–	114,996*	443,723*	161,220	2,225,918

* These reserve accounts comprise the consolidated reserves of RMB1,560,885,000 (2013: RMB1,664,326,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**77,416**	66,362
Adjustments for:			
Depreciation	8	**161,899**	159,005
Amortisation of prepaid land lease payments	8	**653**	653
Impairment of trade receivables	8	**975**	–
Write-down of inventories to net realisable value	8	**3,850**	3,400
Finance costs		**5,647**	959
Interest income	6	**(3,503)**	(2,698)
Investment income from bank financial products	6	**(23,223)**	(6,100)
Investment income from an entrusted loan	6	**–**	(680)
Loss on disposal of items of property, plant and equipment		**–**	121
Fair value losses/(gains), net	6	**16,591**	(11,793)
		240,305	209,229
Decrease/(increase) in inventories		**17,381**	(69,786)
Decrease/(increase) in trade and notes receivables		**(131,091)**	92,617
Decrease/(increase) in prepayments, deposits and other receivables		**190,186**	(179,719)
Increase/(decrease) in trade and notes payables		**(189,519)**	392,719
Increase/(decrease) in other payables and accruals		**20,550**	(18,456)
Cash generated from operations		**147,812**	426,604
Income tax paid	11	**(18,722)**	(1,925)
Net cash flows from operating activities		**129,090**	424,679

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Net cash flows from operating activities		**129,090**	424,679
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**4,556**	1,525
Purchases of items of property, plant and equipment		**(47,376)**	(98,601)
Proceeds from disposal of items of property, plant and equipment		**–**	514
Investments in bank financial products		**(2,956,679)**	(1,907,720)
Cash collected from investments in an entrusted loan		**–**	8,680
Cash collected from investments in bank financial products		**2,991,902**	1,901,820
Net cash flows used in investing activities		**(7,597)**	(93,782)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing loans and borrowings		**785,809**	223,829
Repayment of interest-bearing loans and borrowings		**(746,817)**	(83,507)
Interest paid		**(5,458)**	(808)
Dividends paid		**(161,220)**	(31,236)
Net cash flows from/(used in) financing activities		**(127,686)**	108,278
Net increase/(decrease) in cash and cash equivalents		**(6,193)**	439,175
Cash and cash equivalents at beginning of year		**481,103**	42,572
Effect of foreign exchange rate changes, net		**–**	(644)
Cash and cash equivalents at end of year		**474,910**	481,103
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**474,910**	481,103
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**474,910**	481,103

COMPANY STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	**2014** **RMB'000**	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,156,880**	1,293,277
Prepaid land lease payments	17	**25,358**	26,011
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NET CURRENT ASSETS		**1,038,586**	1,010,331
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,225,918**	2,329,619

COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2014

	Notes	**2014** **RMB'000**	2013 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	11	**–**	260
Total non-current liabilities		**–**	260
NET ASSETS		**2,225,918**	2,329,359
EQUITY			
Issued capital	28	**503,813**	503,813
Reserves	29	**1,560,885**	1,664,326
Proposed final dividend	12	**161,220**	161,220
TOTAL EQUITY		**2,225,918**	2,329,359

Ye Shi Qu
Director

Zhang Hu Ming
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2014

1. CORPORATE INFORMATION

Anhui Tianda Oil Pipe Company Limited (the "Company"), was established as a limited liability company by Anhui Tianda Enterprise (Group) Company Limited ("Tianda Holding") on 23 June 2004 in the People's Republic of China (the "PRC"). On 13 April 2006, the Company was re-registered as a joint stock company with limited liability.

On 1 December 2006, the Company issued new H shares by way of international placing and those H shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "HKEx").

The Company withdrew its listing from the GEM of the HKEx so as to arrange its H shares to be listed on the Main Board of the HKEx on 24 December 2007 by way of introduction.

On 1 April 2011, the Company issued 196,000,000 new H shares at a price of HK$3.96 per share to Vallourec & Mannesmann Tubes ("Vallourec"). The net proceeds from the above share issuance, after deducting the related issuing expenses, were approximately RMB652,857,000.

In the opinion of the directors, the holding company of the Company is Tianda Holding. Mr. Ye Shi Qu (葉世渠) held an 85.14% equity interest in Tianda Holding as at 31 December 2014, and therefore is the substantive shareholder of the Company.

The Company and its subsidiary (the "Group") are principally engaged in the design, manufacture and sale of specialised seamless pipes for the oil and natural gas industry, including oil well pipes (oil transfer pipes and casing pipes) and petrochemical pipes, as well as other specialised seamless pipes for vessels, boilers and other purposes. The registered office and principal place of business of the Company is located at Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in Section 76 to 87 of Schedule 11 to that Ordinance.

2.1 BASIS OF PREPARATION (CONTINUED)

Statement of compliance (continued)

The Company maintains its books and prepares its statutory financial statements in accordance with the relevant accounting principles and financial regulations promulgated by the Ministry of Finance of the PRC. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain respects from IFRSs. The differences arising from restating the results of operations and financial position to comply with IFRSs have been adjusted in these financial statements, but will not be taken up in the accounting records of the Company.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and a new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC Interpretation 21	*Levies*
Amendment to IFRS 2 included in Annual Improvements 2010-2012 Cycle	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to IFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to IFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective IFRSs*

1 Effective from 1 July 2014

Other than explained below regarding the impact of amendments to IAS 36 and IFRS 13, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

(a) The IAS 36 Amendments remove the unintended disclosure requirement made by IFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments have had no impact on the financial position or performance of the Group.

(b) The IFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	*Financial Instruments*[4]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to IAS 1	*Disclosure Initiative*[2]
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (CONTINUED)

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Depreciation of property, plant and equipment is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.7%
Plant and machinery	9.5%
Motor vehicles	9.5%
Office equipment and other equipment	9.5% to 19%

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses in profit or loss. These net fair value changes do not include any interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in administrative expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in profit or loss.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and notes payables, other payables and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

The functional currency of the overseas subsidiary is currency other than the RMB. As at the end of the reporting period, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and its profit or loss is translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated included in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of property, plant and equipment

The directors of the Company determine the estimated useful lives and residual values and consequently related depreciation charges. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. The directors will increase the depreciation charge where useful lives and residual values are less than previously estimated, or they will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Estimation uncertainty (continued)

Estimated impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of trade receivables and prepayments, deposits and other receivables. The identification of impairment of receivables requires the directors' estimates. Where the expectation is different from the original estimate, the difference will impact the carrying values of the trade receivables and prepayments, deposits and other receivables and impairment expenses in the period in which the estimates have been changed.

Estimated write-down of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-down requires directors' judgement and estimates. Where the expectation is different from the original estimate, the difference will impact the carrying values of inventories and write-down of inventories in the period in which the estimates have been changed.

Deferred tax assets

Deferred tax assets are recognised for all temporary undeductible provisions to the extent that it is probable that taxable profit will be available against which the temporary undeductible provision can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to temporary undeductible provisions at 31 December 2014 was RMB5,094,000 (2013: Nil). Further details are contained in note 11 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment. Therefore, no analysis by operating segment is presented.

Geographical information

(a) *Revenue from external customers*

	2014 **RMB'000**	2013 RMB'000
Mainland China	**1,864,686**	2,660,757
Other countries	**1,017,269**	648,933
	2,881,955	3,309,690

The revenue information above is based on the locations of the customers.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information (continued)

(b) Non-current assets

	2014	2013
	RMB'000	RMB'000
Mainland China	**1,182,238**	1,319,288
Other countries	**–**	–
	1,182,238	1,319,288

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately RMB645,013,000 was derived from sales to customer A in 2014 (2013: RMB491,795,000), including sales to a group of entities which are known to be under common control with those customers.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns, trade discounts and various types of government surcharges where applicable during the year.

	2014	2013
	RMB'000	RMB'000
Sale of goods	**2,888,334**	3,315,116
Less: Government surcharges	**(6,379)**	(5,426)
Revenue	**2,881,955**	3,309,690

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2014	2013
	RMB'000	RMB'000
Other income and gains		
Investment income from bank financial products	**23,223**	6,100
Investment income from foreign exchange forward contracts not qualifying as hedges	**7,068**	4,376
Bank interest income	**3,503**	2,698
Government grants	**1,785**	559
Fair value gains, net	**–**	11,793
Investment income from an entrusted loan	**–**	680
Others	**507**	204
	36,086	26,410

Government grants have been received from the local government authorities as subsidies to the Group. There are no unfulfilled conditions or contingencies attaching to these grants.

	2014	2013
	RMB'000	RMB'000
Other expenses		
Fair value losses, net	**16,591**	–
Bank charges	**2,228**	1,006
Others	**7**	138
	18,826	1,144

7. FINANCE COSTS

	2014	2013
	RMB'000	RMB'000
Bank loan interest	**5,647**	910
Foreign exchange losses	**1,206**	11,167
	6,853	12,077

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2014 RMB'000	2013 RMB'000
Cost of inventories sold		**2,635,524**	3,080,350
Depreciation	16	**161,899**	159,005
Amortisation of prepaid land lease payments	17	**653**	653
Impairment of trade receivables	20	**975**	–
Write-down of inventories to net realisable value		**3,850**	3,400
Research costs		**51**	51
Auditors' remuneration		**970**	950
Staff costs (including directors', chief executive's and supervisors' remuneration as set out in note 9):			
– Salaries and other staff costs		**101,710**	96,265
– Retirement benefit contributions		**15,665**	15,016
Foreign exchange difference, net		**1,206**	11,167

9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

The Company does not have the position of chief executive. Details of the remuneration of directors and supervisors during the years ended 31 December 2014 and 2013, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	2014 RMB'000	2013 RMB'000
Fees	**126**	100
Other emoluments:		
– Salaries, allowances and benefits in kind	**293**	446
– Performance-related bonuses	**1,431**	711
– Retirement benefit contributions	**38**	28
	1,762	1,185
	1,888	1,285

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2014 RMB'000	2013 RMB'000
Wu Chang Qi	–	–
Zhao Bin	50	50
Wang Bo	50	50
Wang Jie	26	–
	126	100

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil). Mr. Wu Chang Qi resigned as the independent non-executive director of the Company in May 2014.

(b) Executive directors, non-executive directors and supervisors

	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2014				
Directors:				
Ye Shi Qu	76	495	10	581
Zhang Hu Ming	76	495	10	581
Liu Peng	–	–	–	–
Fu Jun Iris	–	–	–	–
Bruno Saintes	–	–	–	–
	152	990	20	1,162
Supervisors:				
Yang Quan Fu	52	10	10	72
Geng Wei Long	27	31	4	62
Huang Yao Qi	62	400	4	466
Didier Maurice Francis Hornet	–	–	–	–
	141	441	18	600

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and supervisors (continued)

	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2013				
Directors:				
Ye Shi Qu	180	299	1	480
Zhang Hu Ming	150	329	9	488
Liu Peng	–	–	–	–
Fu Jun Iris	–	–	–	–
Bruno Saintes	–	–	–	–
	330	628	10	968
Supervisors:				
Yang Quan Fu	50	9	9	68
Geng Wei Long	66	74	9	149
Didier Maurice Francis Hornet	–	–	–	–
	116	83	18	217

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year ended 31 December 2014 (2013: Nil). Mr. Geng Wen Long resigned as the supervisor of the Company in May 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2013: two) directors and supervisors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2013: three) non-director or non-supervisor, highest paid employees for the year are as follows:

	2014	2013
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**70**	127
Performance-related bonuses	**839**	987
Retirement benefit contributions	**10**	18
	919	1,132

The number of non-director or non-supervisor, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2014	2013
Nil to HK$1,000,000	**2**	3

11. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year ended 31 December 2014 (2013: Nil).

The Company is subject to income tax at the rate of 25% on its taxable income according to the PRC Enterprise Income Tax Law, effective from 1 January 2008.

The major components of income tax expense for the years ended 31 December 2014 and 2013 are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Current – Mainland China		
Charge for the year	**24,991**	14,941
Deferred:		
Relating to origination and reversal of temporary differences	**(5,354)**	2,136
Total tax charge for the year	**19,637**	17,077

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

11. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiary are domiciled to the tax expense at the effective tax rate, is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Profit before income tax	**77,416**	66,362
Tax at the applicable tax rate of 25%	**19,354**	16,590
Expenses not deductible for tax	**283**	487
Tax charge at the Group's effective rate	**19,637**	17,077
Effective tax rate	**25.37%**	25.73%

The movements in income tax payable during the years ended 31 December 2014 and 2013 are as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
At beginning of year	**7,597**	(5,419)
Provision for the year	**24,991**	14,941
Payment during the year	**(18,722)**	(1,925)
At end of year	**13,866**	7,597

The movements in deferred tax assets arising from deductible temporary differences between the tax bases of trade receivables, inventories and their carrying amounts for financial reporting purposes during the years ended 31 December 2014 and 2013 are as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
At beginning of year	**3,343**	2,531
Deferred tax credited to profit or loss during the year	**1,751**	812
Gross deferred tax assets at end of year	**5,094**	3,343

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

11. INCOME TAX (CONTINUED)

The movements in deferred tax liabilities arising from the revaluation of forward currency contracts and available-for-sale investments to fair value during the years ended 31 December 2014 and 2013 are as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
At beginning of year	**3,603**	825
Deferred tax charged/(credited) to profit or loss during the year	**(3,603)**	2,948
Deferred tax credited to equity during the year	**–**	(170)
Gross deferred tax liabilities at end of year	**–**	3,603

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group and the Company for financial reporting purposes:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Deferred tax assets	**5,094**	3,343
Deferred tax liabilities	**–**	(3,603)
Deferred tax assets/(liabilities), net	**5,094**	(260)

12. DIVIDENDS

	2014	2013
	RMB'000	RMB'000
Proposed final dividend – RMB4.0 cents (2013: RMB4.0 cents) per ordinary share	**40,305**	40,305
Proposed special dividend – RMB12.0 cents (2013: RMB12.0 cents) per ordinary share	**120,915**	120,915
	161,220	161,220

The proposed final dividend and special dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to the owners of the parent for the year ended 31 December 2014 includes a profit of RMB57,779,000 (2013: RMB49,259,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of shares (including Domestic Shares and H Shares) of 1,007,626,000 in issue during the year (2013: 1,007,626,000).

The Group had no potentially dilutive ordinary shares in issue during the two years of 2014 and 2013.

15. RETIREMENT BENEFIT CONTRIBUTIONS

As stipulated by the PRC regulations, the Company participates in a defined contribution retirement scheme. All formal employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of their last employment at their retirement date. The Group is required to make contributions to the local social insurance bureau at a rate of 20% of the average basic salaries for the employees of the Group in Mainland China. The Company has no obligations for the payment of pension benefits beyond the annual contributions to the local social insurance bureau as set out above.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

16. PROPERTY, PLANT AND EQUIPMENT
Group and Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
As at 1 January 2013	399,946	1,464,260	1,808	42,415	47,172	1,955,601
Additions	3,791	2,668	2,084	992	47,129	56,664
Transferred from construction in progress	2,684	85,814	60	123	(88,681)	–
Disposals	–	–	(1,447)	–	–	(1,447)
As at 31 December 2013 and 1 January 2014	406,421	1,552,742	2,505	43,530	5,620	2,010,818
Additions	–	1,182	–	–	24,320	25,502
Transferred from construction in progress	–	14,859	59	4,937	(19,855)	–
As at 31 December 2014	406,421	1,568,783	2,564	48,467	10,085	2,036,320
Accumulated depreciation:						
As at 1 January 2013	39,971	500,499	951	17,927	–	559,348
Charge for the year	10,969	144,050	228	3,758	–	159,005
Disposals	–	–	(812)	–	–	(812)
As at 31 December 2013 and 1 January 2014	50,940	644,549	367	21,685	–	717,541
Charge for the year	11,039	146,750	242	3,868	–	161,899
As at 31 December 2014	61,979	791,299	609	25,553	–	879,440
Net book value:						
As at 31 December 2014	344,442	777,484	1,955	22,914	10,085	1,156,880
As at 31 December 2013	355,481	908,193	2,138	21,845	5,620	1,293,277

All buildings of the Group are located in Mainland China.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

17. PREPAID LAND LEASE PAYMENTS

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Cost:		
At beginning and end of year	**31,573**	31,573
Accumulated amortisation:		
At beginning of year	**5,562**	4,909
Charge for the year	**653**	653
At end of year	**6,215**	5,562
Net book value at end of year	**25,358**	26,011

The leasehold land is situated in Mainland China and held under long-term leases.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**–**	–

Particulars of the subsidiary are as follows:

Company name	Place of Incorporation/ operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activity
Hongkong Tianda Oil Pipe Company limited (香港天大石油管材股份有限公司)	Hong Kong	–	100	–	Dormant

As at 31 December 2014, there was no amount due from/to the subsidiary (31 December 2013: Nil).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

19. INVENTORIES

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Raw materials	**244,060**	278,174
Work in progress	**8,558**	19,394
Finished goods and merchandises	**286,358**	271,377
Consigned processing goods	**8,738**	–
	547,714	568,945

Included in inventories as at 31 December 2014 were costs of certain inventories of RMB120,190,000 (31 December 2013: RMB148,348,000), which were carried at a net realisable value.

20. TRADE AND NOTES RECEIVABLES

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Notes receivable from domestic third parties	**149,983**	51,410
Trade receivables from overseas customers	**243,292**	125,588
Trade receivables from domestic customers	**167,104**	252,290
	410,396	377,878
Impairment	**(975)**	–
	559,404	429,288

The balances of notes receivable are unsecured, interest-free and mature within six months.

Customers are usually required to make payment in advance before the Group delivers goods to them. However, the Group's trading terms with its overseas customers and certain major domestic customers are on credit. The credit period is generally 1 to 45 days extending up to 100 days for certain strategic customers. The Group enters into sales with overseas customers through irrevocable letters of credit or telegraphic transfers. Each domestic customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are unsecured and interest-free.

20. TRADE AND NOTES RECEIVABLES (CONTINUED)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	**407,299**	377,878
Between one and two years	**3,097**	–
	410,396	377,878

The movements in provision for impairment of trade receivables are as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
At beginning of year	**–**	131
Impairment losses recognised	**975**	–
Amount written off as uncollectible	**–**	(131)
At end of year	**975**	–

Included in the above provision for impairment of trade receivables as at 31 December 2014 is mainly a provision for individually impaired trade receivables of RMB975,000 with a carrying amount before provision of RMB3,298,000. No provision was provided for trade receivables as at 31 December 2013.

The individually impaired trade receivables relate to customers that were default in principal payment and only a portion of the receivables is expected to be recovered.

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	**407,098**	377,878

Receivables that were neither past due nor impaired relate to many diversified customers from whom there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

20. TRADE AND NOTES RECEIVABLES (CONTINUED)

Included in the Group's trade receivables were amounts due from Vallourec Oil & Gas (China) Co., Ltd. ("VOGC") of approximately RMB64,871,000 (31 December 2013: approximately RMB66,810,000), from Vallourec Oil & Gas France ("VOGF") of approximately RMB177,936,000 (31 December 2013 RMB65,977,000), and from Vallourec Middle East FZE ("VME") of approximately RMB6,902,000 (31 December 2013: Nil), which were all payable on a credit term of 45 days.

As at 31 December 2014, the Group had pledged notes receivable of approximately RMB76,807,000 (2013: Nil) to secure bank accepted drafts issued by a bank.

As at 31 December 2014, the Group had pledged trade receivables of approximately RMB186,205,000 to secure bank loans (31 December 2013: RMB147,213,000).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Prepayments	**71,013**	187,542
Deposits and other receivables	**98,958**	172,615
Bank interest receivables	**142**	1,195
	170,113	361,352
Impairment	**–**	–
	170,113	361,352

All balances are unsecured, interest-free and have no fixed terms of repayment.

Included in the Group's and the Company's deposits and other receivables were (i) time deposits of RMB31,671,000 to the banks to secure the bank accepted drafts and letters of credit (31 December 2013: RMB112,409,000); and (ii) the net input value-added tax ("VAT") of RMB65,525,000 (31 December 2013: RMB54,017,000) arising from the purchase of items of property, plant and equipment after deducting the output VAT for domestic sales.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company 2014	
	Assets RMB'000	**Liabilities RMB'000**
Foreign exchange forward contracts	**–**	**2,177**
Portion classified as non-current	**–**	**–**
Current portion	**–**	**2,177**

	Group and Company 2013	
	Assets RMB'000	Liabilities RMB'000
Foreign exchange forward contracts	14,414	–
Portion classified as non-current	–	–
Current portion	14,414	–

The above foreign exchange forward contracts did not qualify for hedge accounting, and the changes in the net fair value losses of RMB2,177,000 were debited to profit or loss during the year ended 31 December 2014 (2013: fair value gains of RMB14,414,000).

23. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2014 RMB'000	2013 RMB'000
Investment in bank financial products, at amortised cost	**–**	12,000

The above investment in bank financial product bore interest at a fixed interest rate of 5.5% and matured on 10 January 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group and Company	
		2014	2013
	Note	**RMB'000**	RMB'000
Cash and bank balances		**145,240**	174,003
Short-term deposits with maturity of three months or less		**329,670**	307,100
Short-term deposits with maturity of over three months		**31,671**	112,409
		506,581	593,512
Less: Pledged time deposits for bank accepted drafts	21	**(30,667)**	(112,409)
Pledged time deposits for letters of credit	21	**(1,004)**	–
Cash and cash equivalents		**474,910**	481,103

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB453,284,000 (31 December 2013: RMB458,312,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

25. INTEREST-BEARING LOANS AND BORROWINGS

Group and Company

	2014			2013		
	Contractual interest rate (%)	**Maturity**	**RMB'000**	Contractual interest rate (%)	Maturity	RMB'000
Current:						
Bank loans	**1.43-3.70**	**2015**	**186,205**	2.15-2.64	2014	147,213

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Analysed into:		
Bank loans:		
Within one year	**186,205**	147,213

The bank loans as at 31 December 2014 and 31 December 2013 bore interest at fixed rates.

As at 31 December 2014, the Group's loans were secured by the pledge of certain of the Group's trade receivables amounting to RMB186,205,000 (2013: RMB147,213,000).

Except for a bank loan which was denominated in Euro, all the other bank loans were denominated in US$ as at 31 December 2014. All the bank loans were denominated in US$ as at 31 December 2013.

26. TRADE AND NOTES PAYABLES

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Notes payable to third parties	**184,030**	374,464
Trade payables to third parties	**122,779**	121,864
	306,809	496,328

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

26. TRADE AND NOTES PAYABLES (CONTINUED)

All notes payable balances were interest-free and payable in six months.

All trade payable balances were unsecured, interest-free and generally on a credit term of 30 days.

An aged analysis of the trade and notes payables as at the end of the reporting period, based on the invoice/issuance date, is as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	**287,775**	480,662
Between one and two years	**11,472**	9,307
Between two and three years	**2,124**	3,960
Over three years	**5,438**	2,399
	306,809	496,328

The notes payable to third parties represent the issued bank accepted drafts, secured by the pledge of certain of the Group's and the Company's time deposits of RMB30,667,000 and notes receivable of RMB76,807,000 as at 31 December 2014 (31 December 2013: time deposits of RMB112,409,000 and notes receivable of Nil).

27. OTHER PAYABLES AND ACCRUALS

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Advances from customers	**50,000**	52,945
Payroll payables	**44,080**	38,793
Other payables	**110,418**	113,895
	204,498	205,633

Except for a miscellaneous tax payable of RMB13,416,000 (31 December 2013: RMB13,166,000) included in other payables, all the balances of other payables and accruals were unsecured, interest-free and had no fixed terms of repayment as at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

28. ISSUED CAPITAL

	2014 RMB'000	2013 RMB'000
Shares		
Registered, issued and fully paid:		
Domestic shares of RMB0.50 each, currently not listed	**255,000**	255,000
H shares of RMB0.50 each	**248,813**	248,813
	503,813	503,813

The Company was re-registered as a joint stock company on 13 April 2006 by the issuance of 170,000,000 fully paid domestic shares with a nominal value of RMB1.00 each to the then shareholders.

On 7 September 2006, the China Securities Regulatory Commission (the "CSRC") approved the Company's subdivision of one domestic share of a nominal value of RMB1.00 into two domestic shares of RMB0.50 each.

Pursuant to the approval document issued by the CSRC, Zheng Jian Guo He Zi [2006] No.17, the Company was authorised to issue new H shares. On 1 December 2006, 145,714,000 H shares with a nominal value of RMB0.50 each were issued to the public by way of international offering at a price of HK$3.00 (equivalent to approximately RMB3.02145) per share. On 7 December 2006, 21,856,000 H shares under an over-allotment option arrangement with a nominal value of RMB0.50 each were issued at a price of HK$3.00 (equivalent to approximately RMB3.02037) per share. The net proceeds from the above share offer, after deducting the related underwriting and other expenses, were RMB464,242,000.

On 23 May 2008, the Company issued and allotted bonus shares to each of the shareholders, whose names were recorded on the Company's register of members on 28 April 2008. Each of these shareholders was offered five new shares for every ten shares held as a bonus issue.

On 11 December 2009, a total of 50,271,000 new H Shares were placed at a price of HK$4.00 (equivalent to approximately RMB3.5236) per share. The net proceeds from the above share offer, after deducting the related underwriting and other expenses, were approximately RMB172,792,000.

On 1 April 2011, the Company issued 196,000,000 new H shares at a price of HK$3.96 per share to Vallourec. The net proceeds from the above share issuance, after deducting the related issuing expenses, were approximately RMB652,857,000.

There was no movement in the Company's issued capital during the years ended 31 December 2014 and 2013.

	Number of shares in issue '000	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 31 December 2013 and at 31 December 2014	1,007,626	503,813	1,002,166	1,505,979

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

29. RESERVES

Statutory surplus reserve

In accordance with the Company Law of the PRC and the articles of association of the Company, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China in 2006 ("PRC GAAP") applicable to the Company, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase the paid-up capital of the Company, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital prior to such conversion.

Distributable reserves

Regarding dividends, the amount that the Company can legally distribute is based on the lesser amount of the retained profits determined in accordance with PRC GAAP and those under IFRSs.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the transfers to the SSR, as set out above.

30. CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

31. PLEDGED ASSETS

Details of the Group's and the Company's notes payable and irrevocable letters of credit which are secured by the pledge of the Group's and the Company's time deposits and note receivables, are included in notes 21, 24 and 26, to the financial statements.

32. COMMITMENTS

Operating lease commitments

Future minimum rentals payable to Tianda Holding under non-cancellable operating leases as at 31 December 2014 and 2013 are as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Within one year	**183**	96
After one year but not more than five years	**104**	–
	287	96

32. COMMITMENTS (CONTINUED)

In addition to the above operating lease commitments, the Group and the Company had the following capital commitments at the end of the reporting period:

Capital commitments

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**2,901**	10,577
Authorised, but not contracted for:		
Plant and machinery	**–**	18,291

33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Group	
	2014	2013
	RMB'000	RMB'000
Sales of oil pipes to the subsidiaries of Vallourec (note i)	**645,013**	491,795
Purchases of services from subsidiaries of Vallourec (note ii)	**2,233**	1,986
Purchases of water from Tianda Holding (note iii)	**429**	478
Purchases of materials from fellow subsidiaries (note iv)	**475**	160
Lease of a dormitory from Tianda Holding (note v)	**96**	96

Notes:

(i) Included in the sales during the year ended 31 December 2014 are approximately RMB336,418,000 (2013: RMB356,340,000), RMB294,245,000 (2013: RMB117,764,000), RMB2,276,000 (2013: RMB15,678,000), RMB11,864,000 (2013 RMB2,013,000) and RMB210,000 (2013: Nil) derived from VOGC, VOGF, Vallourec DEUTSCHLAND GmbH, VME and VAM Changzhou Oil & Gas Premium Equipment Co., Ltd., respectively. The sales were conducted based on mutually agreed terms with reference to market prices, after deducting the agreed commission fees.

(ii) These transactions were carried out based on the agreement between the Group and the subsidiaries of Vallourec.

(iii) The purchases were conducted based on mutually agreed terms with reference to market prices.

(iv) These transactions were carried out based on mutually agreed terms with reference to market prices, as agreed between the Group and the fellow subsidiaries which are controlled by Tianda Holding.

(v) Pursuant to the dormitory lease agreement entered into with Tianda Holding, the Group paid an annual rent of RMB96,200 for the years from 1 January 2012 to 31 December 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties:

Details of the Group's trade receivable balances with VOGC, VOGF and VME at the end of the reporting period are disclosed in note 20 to the financial statements.

(c) Compensation of key management personnel of the Group:

	Group	
	2014	2013
	RMB'000	RMB'000
Short-term employee benefits	**3,513**	3,093
Retirement benefit contributions	**79**	73
	3,592	3,166

Further details of directors' emoluments are included in note 9 to the financial statements.

All the above related party transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group and the Company as at the end of the reporting period are as follows:

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Cash and cash equivalents	**474,910**	481,103
Bank interest receivables	**142**	1,195
Trade and notes receivables	**559,404**	429,288
Pledged deposits	**31,671**	112,409
Other financial assets included in prepayments, deposits and other receivables	**1,042**	1,947
Financial assets at fair value through profit or loss		
Derivative financial instruments	**–**	14,414
Held-to-maturity investments	**–**	12,000
	1,067,169	1,052,356

34. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments of the Group and the Company as at the end of the reporting period are as follows: (continued)

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Financial liabilities		
Financial liabilities at amortised cost		
Trade and notes payables	**306,809**	496,328
Interest-bearing loans and borrowings:		
– Fixed rate borrowings	**186,205**	147,213
Other financial liabilities included in other payables and accruals	**97,002**	100,729
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	**2,177**	–
	592,193	744,270

35. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are derecognised in their entirety

At 31 December 2014, the Group endorsed certain bills (notes) receivable accepted by banks in the PRC (the "Derecognised Bills"), to certain of its suppliers in order to settle the trade payables due to these suppliers with a carrying amount in aggregate of RMB1,641,226,000 (31 December 2013: RMB733,326,000) (the "Endorsement"). The Derecognised Bills have maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Group and Company			
	Carrying amount		Fair value	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Derivative financial instruments	–	14,414	–	14,414
Held-to-maturity investments	–	12,000	–	12,000
	–	26,414	–	26,414
Financial liabilities				
Interest-bearing loans and borrowings				
– Fixed rate borrowings	**186,205**	147,213	**186,559**	147,607
Derivative financial instruments	**2,177**	–	**2,177**	–
	188,382	147,213	**188,736**	147,607

Management has assessed that the fair values of cash and cash equivalents, bank interest receivables, trade and notes receivables, pledged deposits, trade and notes payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of held-to-maturity investments and fixed rate borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, primarily foreign exchange forward contracts, are measured using valuation techniques similar to the forward pricing model, using present value calculations. The model incorporates various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of forward currency contracts are the same as their fair values.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:
Group and Company

As at 31 December 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**–**	**2,177**	**–**	**2,177**

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2013.

Assets measured at fair value:
Group and Company

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	14,414	–	14,414

The Group and the Company did not have any financial assets measured at fair value as at 31 December 2014.

During the year, there were no transfers between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
31 December 2014

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets for which fair value is disclosed:

Group and Company

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Held-to-maturity investments	–	12,000	–	12,000

The Group and the Company did not have any financial assets for which fair value should be disclosed as at 31 December 2014.

Liabilities for which fair value is disclosed:

Group and Company

As at 31 December 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**–**	**186,559**	**–**	**186,559**

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	147,607	–	147,607

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans and borrowings, as well as cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables as well as trade and notes payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign exchange forward contracts. The purpose is to manage foreign currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Foreign currency risk

Currently, the PRC government imposes control over foreign currencies. The RMB, the official currency in Mainland China, is not freely convertible. Enterprises operating in Mainland China can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. Payments for imported materials or services and remittance of earnings outside of Mainland China are subject to the availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in Mainland China for valid reasons such as purchases of imported materials and remittance of earnings. While conversion of RMB to Hong Kong dollars or other foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

The Group does not have any significant investment outside of Mainland China. However, the Group has transaction currency exposures. These exposures arise from sales in currencies other than the Group's functional currency. Approximately 35% of the Group's sales for the year ended 31 December 2014 (2013: 39%) were denominated in currencies other than the functional currency of the operating entities making the sales. Upon receipt of currencies other than the functional currency, the Group sells them to the banks immediately.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
US$		
2014	**+5%**	**4,285**
	–5%	**(4,285)**
2013	+5%	1,331
	–5%	(1,331)
EUR		
2014	**+5%**	**(164)**
	–5%	**164**
2013	+5%	70
	–5%	(70)
HK$		
2014	**+5%**	**4**
	–5%	**(4)**
2013	+5%	4
	–5%	(4)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that customers are required to make payment in advance before the Company delivers goods to them, except for overseas customers and certain domestic major customers, to whom credit terms of 1 to 45 days extending up to 100 days for certain strategic customers are granted with the shortfall between advances received and invoiced amounts, subject to the credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, and therefore, the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There is no significant concentration of credit risk with the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank accepted drafts and bank loans.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group and Company

	2014					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**
Interest-bearing loans and borrowings	**–**	**187,420**	**–**	**–**	**–**	**187,420**
Derivative financial instruments	**–**	**923**	**1,254**	**–**	**–**	**2,177**
Trade and notes payables	**122,780**	**49,154**	**134,875**	**–**	**–**	**306,809**
Other financial liabilities included in other payables and accruals	**97,002**	**–**	**–**	**–**	**–**	**97,002**
	219,782	**237,497**	**136,129**	**–**	**–**	**593,408**

	2013					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	–	79,886	68,652	–	–	148,538
Trade and notes payables	121,864	85,855	288,609	–	–	496,328
Other financial liabilities included in other payables and accruals	100,729	–	–	–	–	100,729
	222,593	165,741	357,261	–	–	745,595

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2014

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The net debt includes interest-bearing loans and borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Interest-bearing loans and borrowings	**186,205**	147,213
Trade and notes payables	**306,809**	496,328
Other payables and accruals	**204,498**	205,633
Less: Cash and cash equivalents	**(474,910)**	(481,103)
Net debt	**222,602**	368,071
Equity	**2,225,918**	2,329,359
Capital and net debt	**2,448,520**	2,697,430
Gearing ratio	**9%**	14%

38. EVENT AFTER THE REPORTING PERIOD

Pursuant to a resolution of the board of directors on 23 March 2015, the directors recommend the payment of a final cash dividend of RMB4.0 cents per share (inclusive of tax) and a special dividend of RMB12.0 cents per share (inclusive of tax).

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 23 March 2015.